Community Woodlands Association

community enterprise

Initial Research into alternative ways of funding land acquisition

with a particular focus on community share issues

September 2010

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Purpose of the Contract

Community Woodlands Association (CWA) has become aware that the Big Lottery strand, Growing Community Assets, has not been an effective way of securing the ownership of land based community assets. Alternative sources of funding need to be found. This report investigates the appropriateness and fit of using share issues to raise capital for land purchase.

Methodology

Initial research was undertaken to establish whether there is an existing model that can easily be adapted to fit the needs outlined above. This included an analysis of existing community equity investment models, the use of a small number of case studies, a consideration of debentures and an evaluation of different legal structures.

Conclusions

26 conclusions are set out in section 4. As this is a short report these, and the full research section, should be read in full. The following, however, is a brief summary:

1. Financing community ventures

1.1 Grants, gifts and donations remain the cheapest form of finance, but changes to the funding landscape are forcing groups to seek alternative sources of financing.

1.2 Loans and bond finance is available from institutions and (to a lesser extent) individuals, but these are a financial liability.

1.3 Equity investment through community shares is more flexible, longer term, and connects the investor to the enterprise, sharing in the risks and rewards.

1.4 The attraction of in-kind benefits as well as, or more likely instead of, financial returns may be attractive to community woodlands.

1.5 Goodwill can be called on, as well as delays in paying dividends, to ensure that income is generated by the issue of shares with minimum and, in some cases, no requirement to pay out interest or capital to investors.

2. Community buy-in

2.1 Community share issues generally raise only a small proportion of the capital required, but the demonstration of public support raises the profile of the venture and helps to unlock other sources of funding, both grants and loans.

2.2 Though returns can be in-kind, there is a legal right for the investor to remove capital by selling shares, so this becomes a long term liability on the company.

2.3 The Enterprise Investment Scheme can help encourage investment.

3. Legal model

3.1 The community benefit society is the model used for most community share issues. The updated legislation is straightforward and there seems no good reason why this model should not be suitable for community woodland purposes.

3.2 The use of withdrawable shares is exempt from both FSA and money laundering regulations, which makes the process simple and avoids the costs of professional share issue.

3.3 The cap on interest payments fits with the social purposes espoused by most investors in community shares.

3.4 The use of bonds or debentures can be used to raise additional capital from members, on terms that allow modest returns.

3.5 CWA could consider whether it could take on a similar role to Energy4All for its members, and provide support to create community benefit societies for its members.

1. Background and Context

Purpose of the Contract

CWA has become aware that the Big Lottery strand, Growing Community Assets, has not been an effective way of securing the ownership of land based community assets. As a result they are considering a range of routes to fund that purchase including alternative grants, charitable fundraising, selling off rights (e.g. timber rights) and seeking contributions from high net worth individuals.

This contract is to investigate the appropriateness and fit of using share issues to raise capital for land purchase. A potential system will require low return investment for share subscribers and also the requirement for strong community governance.

Methodology

The work undertaken covered the following areas:-

Initial research was undertaken to establish whether there is an existing model that can easily be adapted to fit the needs outlined above. This included:

- an overview / analysis of existing community equity investment models, e.g. that used by Energy4All
- a consideration of debentures
- a small number of case studies.

Consideration was then given to existing models to ascertain whether these could be lifted off the shelf or adapted to suit CWA's purposes.

One option is to design a new model. Research into more innovative legal structures was undertaken, including the use of Community Interest Companies (CICs), using both a single company model and a dual company structure.

Work on the legal structure considered limitations on trading and redeeming shares, and on size of shareholding and issues around dividend / reinvestment of profits.

2. Research

Introduction

The aim of this section is to consider the work done to date on community share issues, and evidence whether there is an existing model that can easily be adapted to fit the needs outlined above, particularly in relation to the purchase of land by a local, normally geographically bound community.

The key context is the difficulty there has been in recent years to secure grant funding to purchase land. Additionally, in recent years there has been a growing public appreciation that businesses can be run for a social purpose, not just private profit, and a recognition that some community services are best delivered through a business model. It is a resurgence of the "can do" attitude that started the original co-operative movement, and it has led to an acceptance in more forward thinking communities that alternative finance models can be considered.

The current funding constraints are forcing many communities to look for alternatives to the traditional grant funding, and beyond fundraising through events and donations to the option of raising finance through the issue of community shares.

This comes at a time when some investors are seeking ethical investments, offering social as well as financial returns. There is a feeling that the sector is at a time of change and that community share issues might be a crucial part of future investment options.

Community Right to Buy in Scotland and The Land Reform Act 2003

The Act was designed to make it easier for communities with a population of less than 10,000 in Scotland to take ownership of the land where they live and work, and many communities have taken advantage of its provisions to take ownership of land, crofts, forestry, local shops and hotels.

The recommended structure for a community trust owning and managing land has been a company limited by guarantee with charitable status. This offers the protection of limited liability and ensures that any surpluses are reinvested or put towards furthering the welfare of the community.

The main source of financial assistance for the purchase of assets under the Act has been the Scottish Land Fund, which provided grants of up to a maximum of 75% of the valuation (with a ceiling of £1 million). In the Highlands and islands Enterprise area, the Community Land Unit (CLU) also provide additional funding.

One of the highest profile community land buy-outs was by the **Isle of Gigha Heritage Trust** which completed a community buy-out in 2002, with the help of the National Lottery and Highlands and Islands Enterprise. £1 million of the £4 million purchase price was a loan, which has largely been paid back by selling Achamore House, an asset that was surplus to the Trust's requirements.

Since the community buy-out, several private businesses have sprung up on Gigha, providing a real boost to the local economy. The Trust has sponsored a wide range of community initiatives. It owns the island's only hotel and has set up Gigha Renewable Energy Ltd to buy and operate 3 wind turbines. The electricity produced is sold to the grid via an intermediary called Green Energy UK. Gigha residents control the whole project and profits are reinvested in the community.

The Trust has also re-opened a quarry, with financial help from Future Builders Scotland, to supply low cost aggregates and create new jobs and training opportunities for residents.

The reduction in the availability of the level of grant finance required for such a project means that it is not a success that can be easily replicated without recourse to alternative means of finance.

The Community Shares Programme

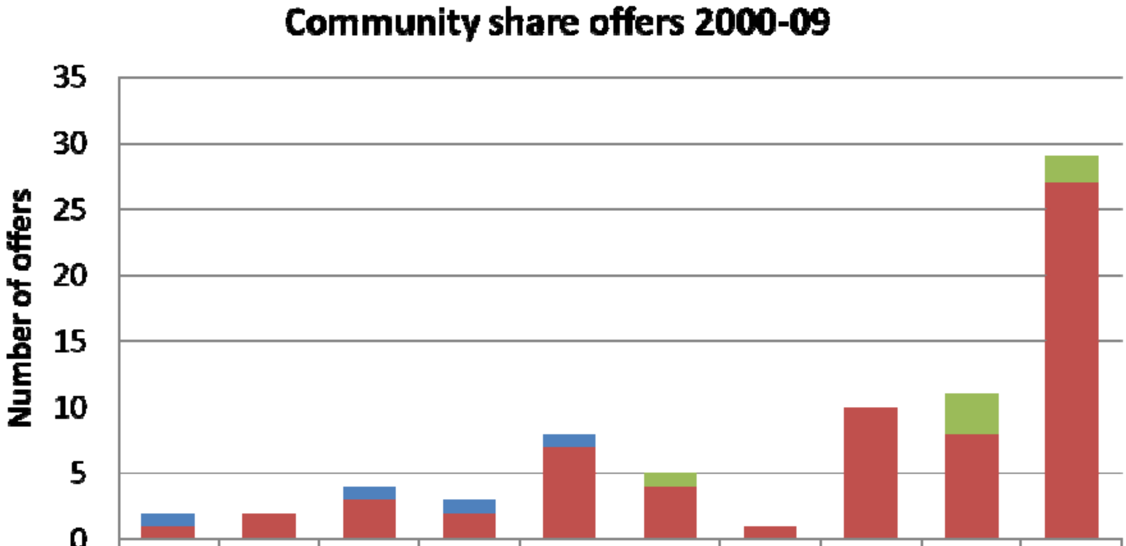
The **Community Shares Programme** is a two-year action research project funded by the Office of the Third sector and the Department for Communities and Local Government, working in partnership with the Development Trust Association (DTA) and Co-operatives UK, exploring how members of the public can invest in enterprises that serve a community purpose. The evidence from the programme will be used by government to shape community regeneration policies and provide more effective guidance, regulation and support for community investment.

Community investment is defined as:-

> *"The sale, or offer for sale of more than £10,000 of shares or bonds to communities of at least 20 people, to finance ventures serving a community purpose."*

This definition distinguishes the community investment covered by the programme from the informal investment by a small group of "friends". Currently 142 enterprises fit this definition, 40% of which have been established in the last 30 months.

Since its launch in January 2009, the programme has contributed to the rapid growth of interest and activity in community investment, culminating in a sevenfold increase in community share schemes in 2009 with 28 enterprises launching community share offers, compared to only 4 in the first half of the decade.



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
plc	1	0	1	1	1	0	0	0	0	0
cics	0	0	0	0	0	1	0	0	3	2
soc	1	2	3	2	7	4	1	10	8	27

The share issues covered a range of activities from village shops, pubs and a childcare nursery to community land trusts involved in farming, urban regeneration, renewable energy schemes and a hydro electric project.

Community share issues in Scotland

There have been fewer organisations in Scotland issuing community shares. The older ones are the traditional retail co-ops and Ekopia is set out as a case study below.

The largest proportion of the more recent ones i part of the Energy4All family of wind farm co-operatives, which is outlined below in further detail.

The Fisherman's Arms at Birgham and Dunbar Community Bakery represent the start of the growing interest in community share issues in Scotland.

The **Development Trust Association** has been heavily involved in the community shares' movement in England and Wales. The Development Trust Association in Scotland **(DTAS)** is in the process of learning from the experience down south. There is considerable interest in community shares following presentations at their conference and the intention is to run seminars that explain and explore the subject further.

Community share issues in Scotland:-

Organisation name	Date estab	share capital	members	Av. per member
Clydebank Co-operative Society	1950	£999,474	11,803	£85

Scotmid Co-operative Society	1980	£5,021,000	238,791	£21
Ekopia Resource Exchange	2001	£642,478	267	£2,406
Community & Co-operative Publishing	2005	£11,050	39	£283
Boyndie Wind Farm Co-operative	2005	£728,000	725	£1,004
Isle of Skye Renewables Co-operative	2007	£812,138	569	£1,427
Great Glen Co-operative	2008	£1,288,270	671	£1,920
Kilbraur Wind Energy Co-operative	2008	£1,043,900	518	£2,015
Fisherman's Arms, Birgham	2008	£150,000	23	£6,520
Dunbar Community Bakery	2009	£23,000	230	£100

In addition, at least another 50 community groups are known to be exploring the option of community investment. Current community share issue projects in Scotland include Angus Broadband; Kirkmichael Community Shop, Ayrshire; Stenhousemuir FC CIC; Gartree Wind Farm.

Energy4All

Energy4All was established by Baywind Co-op on a not-for-profit basis in 2002 for the sole purpose of facilitating the ownership and operation of renewable energy projects by local or community-based co-operatives.

Baywind Energy Co-Operative Ltd, Cumbria

Baywind Energy Co-operative Ltd is Energy4All's oldest wind farm, consisting of two wind farms in Haverigg and Harlock Hill, Ulverston, erected in the late 1990s. Baywind Energy Co-operative Ltd is an Industrial & Provident Society, which was formed in 1996 on the lines of co-operative models successfully pioneered in Scandinavia.

The first share offer in 1996/97 raised £1.2 million to buy two turbines at the Harlock Hill wind farm. In 1998/99 the second share offer raised a further £670,000 to buy another turbine. Preference is shown for local investors, so that the community can share some of the economic benefits from their local wind farm - 40% of the 1,300 existing Baywind shareholders live either in Cumbria or Lancaster with more from the north-west region.

These share offers were full public offers, at a cost of thousands of pounds in professional and marketing fees.

All profits derived from electricity generation are paid back to the shareholders. Since the formation of Baywind in 1996, members have received a competitive return on their investment; between 5.6% and 6.6% gross. Under the government's Enterprise Investment Scheme (EIS), most members can claim back 20% tax on their initial investment in the co-op, thus increasing the return to between 7% and 8.2%. EIS provides tax relief to new equity investors in small firms – 20% of the amount invested can be offset against income tax in the year the investment is made. This can act as an incentive to higher net worth individuals. Unfortunately, EIS only applies to “qualifying investments” – holding, managing or occupying woodlands and any other forestry activities or timber production are specifically excluded, as are property development and farming.

Returns to Members

Year	Financial Year End	Gross	EIS Gross
Year 1	to 31/12/1997	Nil	Nil
Year 2	to 31/12/1998	6.2% gross	7.8% gross
Year 3	to 31/02/1999	6.6% gross	8.2% gross
Year 4	to 31/12/2000	6.4% gross	7.9% gross
Year 5	to 31/12/2001	5.6% gross	7.1% gross
Year 6	to 31/12/2002	6.1% gross	7.6% gross
Year 7	to 31/12/2003	* 3.8% gross	4.8% gross
Year 8	to 31/12/2004	6.3% gross	7.8% gross
Year 9	to 31/12/2005	7.2% gross	9% gross
Year 10	to 31/12/2006	6.6% gross	8.3% gross
Year 11	to 31/12/2007	8% gross	10% gross
Year 12	to 31/12/2008	6.6% gross	8.2% gross

* First full year of Energy4All

Baywind has proved over the last 6 years that this structure can be commercially successful and can bring major benefits to the local community:

- The co-op uses local contractors for site development, maintenance, and support.
- The wind farm is visited by hundreds of school children and adults on educational visits, and Baywind funds environmental books for local schools.
- There is an energy conservation trust funded by the co-op, which promotes energy conservation in the local community, providing information and grants for energy efficiency measures.
- Members (many of them locals) have received attractive annual dividends on their investments.
- This direct involvement increases awareness of environmental issues at the grass roots level.

Energy4All is owned by the co-operatives it creates – Boyndie Wind Farm Co-operative Ltd, Baywind Energy Co-op, Westmill Wind Farm Co-op, Fenland Green Power Co-op, Great Glen Wind Energy Co-op, Kilbraur Wind Energy Co-op and Isle of Skye Renewables Co-op and, as additional co-ops are established, they too will share in the ownership of Energy4All.

Energy4All has dedicated development staff working throughout the UK, utilising key partnerships to promote community renewables.

www.energy4all.co.uk

Projects in Scotland

Energy4All Ltd has teamed up with the renewable energy firms RDC Scotland Ltd and Falck Renewables Ltd to offer community involvement in seven projects primarily in the Highlands and Islands of Scotland.

All of the projects give local people, as a matter of priority, and others an opportunity to invest in the production of renewable energy. The share issues are aimed especially, but not exclusively, at groups and individuals local to the wind farm to maximise the economic benefits to the local communities around the development. Energy4All manages the share issues and provides support from its Cumbrian office. Shareholdings range from £250 to the £20,000 maximum allowed.

All are set up as Industrial & Provident Societies, based on the highly successful wind farm run in Cumbria by Baywind Energy Co-operative Ltd. Members of the Board are chosen to represent the local area, generally with the addition of one member from Energy4All to provide expertise and advice on running the co-op.

Each of the projects has raised substantial amounts of capital through share issues:

1. **Boyndie Wind Farm Co-operative Ltd** was established in 2005 to purchase a share of the wind farm in the former World War II airfield in Aberdeenshire from owners Falck Renewables in 2006. The wind farm has 7 turbines, capable of generating 14 MW of electricity.

- Share issue - opened 15th May 2006 and closed on 14th August 2006
- Share capital raised - £730,000
- Number of members/shareholders – 716.

2. **Isle of Skye Renewables Co-operative** Limited was established in 2007 for the purpose of purchasing a share in the Ben Aketil wind farm located near Dunvegan from owners Falck Renewables. The Ben Aketil wind farm consists of ten 2.3MW wind turbines, capable of generating enough clean, green energy to supply around 14,000 homes.
   - Share issue - opened 16th October 2007 and closed 18th December 2007
   - Share capital raised - £812,137
   - Number of members/shareholders – 570.
3. **The Great Glen Energy Co-op** was formed in June 2008 to give local people a chance to own a stake in the 16-turbine Millennium wind farm in Glenmoriston. It was the third Scottish co-operative set up by Energy4All. The wind farm is owned and managed by Millennium Wind Energy Ltd. There are currently 20 x 2.5MW turbines on the site with planning approval for a further 6. The co-op was formed to own a stake in the original 16 turbines. When the wind farm is operating fully, these 16 turbines generate green electricity to supply around 22,400 homes.
   - Share issue – opened 13th June 2008 and closed 29th August 2008
   - Share capital raised - £1,288,270 (> 5 times its target for the share offer)
   - Number of members/shareholders – 677.
4. **Kilbraur Wind Energy Co-operative** Limited was formed in August 2008 to give local people a chance to own a stake in the 19-turbine Kilbraur wind farm in Sutherland, owned by Kilbraur Wind Energy Limited (KWEL) which is a subsidiary of Falck Renewables Ltd. The project was developed with RDC Scotland, in association with West Coast Energy Limited. The wind farm has 19 2.5Mw turbines. When the wind farm is operating fully it generates enough clean, green electricity to supply around 27,000 homes.
   - Share issue – opened 13th June 2008 and closed 29th August 2008
   - Share capital raised - £1,043,900 (> 4 times its target for the share offer)
   - Number of members/shareholders – 516.

3 further co-operative windfarms are being developed through Energy4All at:

1. Dunbeath in the Highlands (22 turbine scheme)
2. Cushnie in Aberdeenshire (7 turbine scheme)
3. Nigg Hill, north-east of Inverness (5 turbine scheme).

Energy4All Ltd offers community involvement in seven projects around the Midlands and coastal areas of England. Most of these have higher levels of capital investment than the Scottish projects:

Westmill Wind Farm Co-op in Oxfordshire is the largest community-owned wind farm in the UK with 5 turbines

- Share issue – opened November 2005 and closed February 2006
- Share capital raised - £3.75m
- Number of members/shareholders – 2,374.

Priority for share purchase was given to people living within a 50 mile radius of the site. Other funding came from a loan from the Co-op Bank.

Fenland Green Power Co-Operative owns 2 of the 8 turbines in Deeping St Nicholas windcluster in Lincolnshire.

- Share issue – opened September 2007 and closed November 2007
- Share capital raised - £2.66m
- Number of members/shareholders – 1,100
- Average investment - £2,400.

Energy Prospects is a pioneering energy co-operative established by Energy4All to overcome the shortage of up-front finance needed to develop community wind farms. In May the share issue met its £1 million target through the willingness of nearly 500 individuals and organisations to invest.

Energy Prospects is a co-operative that will undertake, on behalf of community projects, the costly and risky stages leading to obtaining planning permission. After receiving planning permission, the projects will raise share capital through their own share offers, whilst paying Energy Prospects a fee.

Clearly this model involves relatively secure profit and share investors are, at least partly, attracted by the financial reward, which may not be so obvious with the purchase of a community woodland.

The Plunkett Foundation and community shops

The Plunkett Foundation promotes and supports co-operatives and social enterprises in rural communities worldwide by providing support, networks and knowledge to help rural communities to be aware of, understand and implement practical solutions to the challenges that they are facing.

The Plunkett Foundation, based in Woodstock in Oxfordshire supports rural communities wanting to set up and run community owned enterprises, mainly involved in community-owned shops, local food and rural community transport.

They offer guidance from the earliest planning stages through to the opening of the shop, and then ongoing support as required through a network of community retail advisers, their web site, a national office and various publications. This advice and support is free to community organisations, funded from grants, donations and subscriptions.

Currently, there are over 240 community owned shops in the UK. This number is increasing as rural communities find that community ownership is often the only way to have a shop in the village. www.plunkett.uk.net

Case study - Eardisland Community Shop

Background

Eardisland is a small rural community in Herefordshire, with a population of approximately 400 people in 225 households. There had been no village shop for 10 years and the nearest supermarket was 4 miles away.

The building

The community shop is in an unusual setting – on the ground floor of The Dovecote, a 17th century building renovated in 1999 and used as a Visitor Centre, housing a wide collection of memorabilia and items of historical interest, attracting more than 20,000 visitors each year.

A 15sq m space on the ground floor is leased to Eardisland Community shop by the Trustees at a peppercorn rent.

Setting it up

A public meeting held in July 2008 to discuss opening a community shop met with a positive response, so a steering group was formed leading to the formation of the Eardisland Community Shop Association and the election of a management team. 18 months of hard work followed - researching other community shops, sending a questionnaire to every household in the parish, obtaining planning permission, renovating the shop and raising funding. The shop opened in April 2010.

The resources for setting up and running the shop, available from the Plunkett Foundation, proved invaluable, as did experience locally of marketing consumer brands.

The shop in operation

Eardisland Community Shop is open weekdays from 8am-6pm and on Sunday from 10am-2pm (5pm in summer).

The tiny shop stocks normal store-cupboard basics, purchased from the local cash'n'carry as well as a range of local products, sourced from 39 local producers. The pricing policy is based on guidelines from the Plunkett Foundation and the chairman's retail experience.

The shop is staffed by a committed team of 40+ volunteers, who work on a rota of one-hour shifts.

Shoppers expect to pay a little more for shopping locally, but know that they are saving carbon miles as well as fuel costs. The support for local producers is important to the association. It also brings customers to the shop from the many visitors to the area and earns a margin of 15%.

Legal status and share issue

Eardisland Community Shop Ltd was established as an Industrial & Provident Society (No. IP030771) on 2nd September 2009, supported by the Plunkett Foundation, who provided the model rules and acted as promoting body.

Shares were issued to the community on the basis of one £10 share per person, so that no one person had any greater financial interest than the others. 158 shares were sold in a village of 450 people. Again the resources for the share issue, including the share certificates, came from the Plunkett Foundation. Share ownership confers membership and the right to vote at the AGM, but no entitlement to any dividend, as surplus funds generated from the shop will be put back into the community to support other projects.

Funding

Members of the association raised more than £5,000 by buying shares, making donations and providing interest-free initial loans to get the shop up and running. The other £28,825 came from grants and from the Co-operative Loan Fund. The Parish Council's support, in terms of voice and commitment, was also important.

Viability

The shop opened in April 2010 so is still in its first year of trading but is ahead of where it is expected to be at this point in time. Its aim is firstly to provide a service/facility for the local community, and secondly to raise funds for other community projects. With its low overheads and staff of volunteers, it is expected to be profitable by the end of the first year.

This example is perhaps closer to the potential of a community woodland, where income generation is limited and profit is likely to be redistributed rather than given as dividends. The amount raised, however, is relatively small. The motivation here is largely local, and to see help make something happen in an individual investors own community.

Ekopia Resource Exchange Ltd

Ekopia was set up to raise funds to buy out the local crafts/books wholefoods shop. The buy-out was successful, and Ekopia has invested over £211,000 in this business and a further £130,000 in other community projects, including an eco-chalet development.

Ekopia Resource Exchange Limited is a community benefit co-operative registered as an Industrial and Provident Society in 2001.

Ekopia seeks funds from members of the community of interest to be re-invested in worthwhile community ventures i.e. those with social purposes and commercial prospects that will generate a suitable return for investors.

Investment Opportunities –share issues

1. Findhorn Wind Park Investment - Funds are usually routed via the "Ecovillage Project Share Fund". Attracting 4-5% interest for one or five years, this investment is classified as medium/high risk as the security is essentially the ability of the company to trade successfully.

2. Findhorn Foundation and NFD Ltd. Investment - Minimum of £1,000 for a minimum period of one year. Three months notice required for a withdrawal. 4% interest per annum. Classified as medium/low risk as the charity and/or its wholly owned trading subsidiary company NFD is able to provide Ekopia with a security over a marketable building.

3. Phoenix Investment - Minimum of £500 for five years. 5% interest per annum plus 5% discount on purchases made in the shop. Classified as high risk as the security is essentially the ability of the company to trade successfully.

4. Ecovillage Project Share Fund – funds raised invested in a portfolio of the various projects. This portfolio approach spreads the investor's risk, and enables Ekopia to offer a more flexible investment opportunity. The minimum investment amount is £500 and the investment periods are 1 and 5 years. Interest rates are variable with returns expected to be between 3% and 6%.

Ekopia investments require a one off £50 lifetime membership. Ekopia is a founder member of Development Trusts Association Scotland and a member of Co-operatives UK. Ekopia benefits form having a high profile in the ecological movement and a large number of supporters willing to invest in the organisation.

www.ekopia.findhorn.com

The attraction here, and the motivation for share purchase, is partly profit generated, but is also a commitment to a movement or way of working. This high theoretical value is likely to attract a smaller number of wealthier investors. In terms of the relation to community woodlands, this will depend on the scale and profile of the project and the nature of the community in which it sits.

Use of debentures

A debenture is the traditional name given to a loan agreement where the borrower is a company. Debentures are also known as bonds or loan stock.

Typically, a debenture will set out the terms of the loan: the amount borrowed, repayment terms, interest, charges securing the loan, provisions for protecting and insuring the property etc., and terms for enforcement if the company defaults.

Debentures are usually secured by charges on the company's property, but do not have to be (called 'bare' or 'naked' debentures). There are different types of charges – “fixed” (secured on specific assets, usually property) and “floating” (secured on the general assets of the company). Debentures, as such, do not have to be registered, but charges securing them have to be registered with Companies House.

Debentures are generally freely transferable by the debenture holder. Debenture holders have no voting rights and the interest paid to them is a charge against profit in the company's financial statements, ranking ahead of dividends paid to shareholders. http://en.wikipedia.org/wiki/Financial_statements

Sports clubs and Debentures

In sport, a debenture is defined as a certificate of agreement of loan, and it carries an undertaking that the debenture holder will get a fixed return (a pre-set interest %) and the principal amount whenever the debenture matures. The terms may also include ancillary benefits such as an option to buy tickets at a favourable price, as well as, or instead of interest.

A large number of sporting organisations have issued debentures to raise money, to allow their fans to gain a financial stake in the club, and to foster a sense of community.

Tennis

The All England Club, the organisers of the Wimbledon Tennis Championships issue their debenture holders a ticket for each day of the tournament. Only debenture holders are permitted to sell their tickets to third parties.

Rugby

Rugby debentures differ in that they generally carry no interest on the amount invested but give the debenture holder the right to obtain tickets for matches. The exact terms of the debentures vary from issue to issue.

The Welsh Rugby Union debentures entitle holders to purchase a seat at the Millennium Stadium for Six Nations matches.

Rugby Football Union debentures confer the right to purchase, at face value, one ticket for matches at Twickenham for 10 years. No interest is paid on them. Debentures are transferable and fully repayable 75 years after the date of issue.

The following is the current debenture issue:

Date of issue	Number of Private and initial cost	Number of Business and initial cost
2000	1269 @ £3950	418 @ £12000
2001	1068 @ £3950	216 @ £12000
2002	868 @ £4350	28 @ £12000
2003	3751 @ £4750	135 @ £12000
2004	1052 @ £4750	28 @ £12000
2005	2314 @ £5250	58 @ £12000
2006	3295 @ £6000	279 @ £14000
2007	102 @ £14000	0
2008	1000 @ £6750	96 @ £14000

Other sports organisations which issue debentures in a similar fashion include Murrayfield Stadium, Hampden Park, Wembley Stadium, Arsenal FC, Nottinghamshire County Cricket Club and Donington Park.

As the majority of community woodlands will not own property, unless this is a naked debenture, the bond will be secured on the land value. This may put the land that the money was used to purchase under unnecessary risk, depending on the relationship with the organisation offering the debenture. The attraction of in-kind benefits as well as, or more likely, instead of, financial returns may be attractive to community woodlands where, for example, a debenture holder (perhaps another third sector organisation) may receive free access to a charged for area or programme in the woodland.

Investors in Community Shares

"Investors in community share schemes are more excited by the feeling of ownership of a social project than the monetary returns they may earn".

This is one of the key findings of research conducted by **Wessex Community Assets** into "Who is buying community shares?"

The aims of this research were to find out who was buying community shares; what were their motivations when they bought the shares; what was most important to them – the financial, social or environmental returns on their investment; and, informed by the findings, what marketing techniques would be best suited to this form of capital raising.

The research identified 4 categories of investor:

- **The Local Community Investor** – an individual who wants to create or maintain local facilities for social return. This can also include those with connections to, but no longer living in, the area e.g. investing in a community owned shop or pub.
- **The Community of Interest Investor** – an individual who wants to create or maintain facilities they have an interest in for social return e.g. investing in a community owned railway.
- **The Social Investor** – an institution or high net worth individual interested in receiving a blend of social and financial return, where possibly social investment is only a small part of a larger investment portfolio e.g. investing in a co - operative wind farm.
- **The Ethical Investor** – an individual with no obvious connection to a Society other than approving of its social aims They are sometimes motivated by democratic structures and ideology, and wish to invest as a means of receiving primarily a social return (but not foregoing financial compensation), a small amount of interest or a tax incentive.

The location of the community investor is either local to the society (within 10 miles) or 50 miles away and further. There is a trend for more distant members to be investing larger sums. The top 10% by value of investors invest at least 30% and sometimes 50% of the capital needed to help the project succeed.

Some statistics from the questionnaire:

- Many are not "investors" in the traditional sense as 93% have no plans to withdraw their shares.
- These people also did not consider their shares a donation, describing how the shares gave them "influence, information and a sense of belonging" not achieved through donations.
- 82% of community shareholders were either very satisfied, or satisfied, with their investment.
- 98% of investors do not tend to use financial advisors when they decide to buy community shares.
- The vast majority of members stated that they had selected an amount to invest that they could afford to lose.
- The demographic profile our community investor is:
  - older, aged 45+;
  - gender ratio showed 59.3% male: 40.7% female
  - in higher managerial or professional occupation or retired.
- One third of respondents held shares, loans or bonds within other community enterprises.
- For 93% of members, community shares are a small proportion of their savings / investments.
- 45% have purchased other shares (not just acquired them, but actively purchased them).

The most important factor to most people when deciding to buy community shares is that the organisation has a social purpose (63% ranked this as very important), closely followed by the organisation providing environmental benefits (57% ranked this as very important). Receiving a good financial return was not seen as being important (35% said this was neither important nor unimportant, 28% said it was not really important and 23% said it was not important at all).

3. Legal models

Charitable company limited by guarantee

The company limited by guarantee with charitable status is the usual model for Development Trusts and similar organisations wishing to acquire community assets under the Right to Buy provisions of the Land Reform Act.

A company limited by guarantee is a separate legal entity, similar to a company limited by shares. The key differences are that there are no shareholders and the incentive to participate is not profit, but commitment to the objects of the organisation. Members cannot benefit from any profits made – they have to be reinvested in the company.

The members must guarantee to pay a nominal sum, usually £1, if the company runs into difficulty. This is the limit of their personal liability, provided they do not act negligently or fraudulently.

Bute Community Land Company, which recently enabled the people of Bute to buy a section of Rhubodach Forest, at the north end of the island, from the director and actor Lord Attenborough, is set up as a company limited by guarantee.

Subsidiary company limited by shares

Where a charitable company limited by guarantee wants to carry out non-charitable trading activities to generate income, it cannot do this within the main charitable company. It has to set up a wholly-owned subsidiary company (a company limited by shares).

This normally has a nominal amount of share capital, wholly owned by the main company (the parent). The profits from the trading subsidiary can then be gifted to the charitable company.

It is possible to use this model to pull in external investment by increasing the amount of share capital from a nominal amount to a more substantial amount by a wider share issue. The main issues relate to control of the subsidiary i.e. voting rights are based on the number of shares held so the parent charity would only have control by holding the majority of shares. This in turn raises the issue of use of charitable assets and risk – is investment in a trading company allowed in the charity's governing documents? Is it an acceptable use of charity funds? Does it put the charity's assets at risk? OSCR will be concerned if the investment poses any threats to the charity's finances as use and protection of charitable assets are its prime concerns.

One example of use of a trading subsidiary to raise community investment is **Sleat Community Trust and the Tormore Community Forest Appeal.**

The Tormore Community Forest Appeal asks people to sponsor an acre of woodland for £20, with the aim of bringing 1,000 acres of forest land in Sleat on the Isle of Skye into community ownership through the National Forest Land Scheme.

The appeal raised over £1,000 in its first week and currently stands at £1,532 after two weeks. The aim is to own and manage the forest for the benefit of the community and visitors alike. The bulk of funding is being sought from business and agency sources, but £20,000 must be raised by the community by the end of the year to help fund the acquisition.

The website has full information and details of how to make a donation to sponsor an acre. This includes use of PayPal, as well as the more traditional payment by cheque or BACS – and the option of dropping the money off with Archie at Skye Ferry Filling Station.

The Tormore Community Forest Appeal is one of the projects of Sleat Renewables Ltd (SRL), a subsidiary of Sleat Community Trust. The company also operates "The Clean Sleat" project, the biomass (woodchip) business, and the community turbine project.

Sleat Community Trust is a charitable company limited by guarantee. It attributes its success to community support – over 70% of the community are members, with 40 of them actively involved and the rest show support, when requested, for the variety of projects the trust undertakes.

The Trust's other subsidiary is Sleat Community Trading Co Ltd, which took over ownership of the Skye Ferry Filling Station in 2007. This now includes the shop and post office, which also acts as the Visitor Information Centre and internet café.

Co-operative and Community Benefit Societies

From 2006 onwards, most of the new community-financed enterprises have been set up as community benefit societies (IPS) with only a handful of CICs and plcs (very large).

The Co-operative and Community Benefit Societies and Credit Unions Act 2010 replaced the *Industrial and Provident Societies Acts*. New societies are registered as **co-operatives** or **community benefit societies**, rather than IPSs.

Co-operatives are run for the mutual benefit of members who use the services of the society. The co-operative format is common amongst housing, consumer and worker co-operatives. Membership is open to anyone who meets the membership criteria. Members receive interest on their share capital and a share in the profits, or a dividend based on transactions with the society.

Community benefit societies are run primarily for the benefit of the community rather then the members of the society i.e. there must be a wider community purpose. Members can receive interest on their share capital but are not entitled to share profits as these are reinvested for community benefit.

A community benefit society is eligible for charitable status, provided it can satisfy the charity test.

These societies are incorporated bodies with limited liability, the same as companies registered under the Companies Acts, set up either for the mutual benefit of members, or for the benefit of the community.

Co-operative and community benefit societies must register their rules (governing document) with the Financial Services Authority (FSA); note that the FSA's role is one of registrar not regulator. All the necessary forms for registration can be found on the FSA website at www.fsa.gov.uk. These are submitted along with a set of the society's rules.

Most societies register through a sponsoring body using their model rules that have been pre-approved by the FSA – see contact details in Appendix 1 – as this makes the registration process faster and cheaper. Any departure from the model rules can result in a more time consuming and expensive process.

When applying for registration, community benefit societies must be able to show a special reason for being a community benefit society rather than a company; this is usually the desire to enshrine democratic decision-making - i.e. one member, one vote – into their legal structure.

The unique attributes of co-operative and community benefit share capital are:-

- **Withdrawable share capital** – this is unique to co-operative and community benefit societies, as it allows investors to get their money back, subject to the terms and conditions of withdrawal, without having to find a buyer for the shares.

  The ability to buy back shares depends on the society having the cash available to do so; many societies limit the amount that can be withdrawn in any one year to a fixed percentage, often 10%. Other share offers state that share capital cannot be withdrawn for an initial period e.g. the first 3 years to allow for income generation.

- **One-member-one-vote**, regardless of how much money a member has invested. This is much more democratic than the company shareholder structure of one-share-one-vote, which allows large shareholders (often institutional) to control the company and dictate policy and terms.

- **Upper limit on individual member investment**, currently £20,000 per individual. This builds on the principle of community ownership rather than dependency on a few individual shareholders.

- **Flexible capped interest**, not dividends, can be paid on share capital. Societies can pay interest up to a rate “sufficient to attract and retain investment”. This respects the not-for-profit motive of members while rewarding them for investing and risking their money.

- The optional **statutory asset lock** applies to community benefit societies only. This is similar to the asset lock in CICs and the restrictions imposed in the dissolution clause for charities.

  It prevents residual assets being distributed to shareholders on sale or dissolution of the society. They must be passed to a not-for-profit organisation with similar aims. This asset lock can be an important feature for societies seeking grant funding.

- **Membership** Most societies have a single category of open membership, although there has been some experimentation with multi-stakeholder structures, with sectional voting-rights, and different rates of return.

- The **minimum investment** is set at £250 to ensure the broadest possible membership.

- The **board** is formed from, and elected by, the members on a democratic basis, again ensuring that there is no control of the board by any large investor.

Regulation of share issues

Community benefit societies issuing **withdrawable share capital** are exempt from regulation under the *Financial Services and Markets Act 2000*. This is because investors are deemed to be investing for social returns rather than financial gain. This means that societies can issue shares without having to use an FSA authorised adviser, which would be prohibitively expensive for small share issues. The downside of this, however, is that investors are relying on the information given in the offer document as they have no right of complaint to the Financial Ombudsman Service.

Withdrawable share capital is also exempt from money laundering regulatory requirements, so societies are under no legal requirement to carry out identity checks on applicants.

Another advantage is speed – Slaithwaite Co-operative was formed and financed within 6 weeks, raising the £15,000 it needed from 121 people who responded to the community share offer through a web and email campaign.

Types of share offer

Membership offer: where the amount invested in share capital is restricted to a nominal sum between £1 and £25. The aim is to promote membership rather than raise capital. The offer may be attached to an annual subscription fee. This method was used by Visions, a sports and health centre in Cumnock in East Ayrshire, who combined it with more traditional fundraising techniques such as ‘sponsor a brick’. This resulted in only a small amount of money raised by shares, but a high amount of social capital and local commitment to the project.

Pioneer offer: offer to founding members to raise high risk initial capital to get “investment ready”. This type of offer generally has a low minimum investment level often £10-£50 and can be completed quickly as investors tend to be local people who know the proposed venture.

Time-bound offer: This is the type of offer used to raise the capital to purchase tangible assets. The offer document sets out the target amount to be raised and the timescale for reaching that target; if it is not successful, the money is returned to investors. The minimum level of investment is often set between £100 and £500, depending on the total target.

Open offer: used by established societies to maintain membership and investment liquidity, supported by annual report and accounts.

Withdrawal of capital

Typical withdrawal notices range from one week to one year. Some time-bound offers set an even longer initial period (3 to 5 years) when withdrawals are not allowed.

Investors should be told that the value of shares may go down but, unlike company shares traded on the Stock Exchange, their value cannot increase above the original price. This means that community shares are unattractive to speculators as they do not provide the opportunity to make a quick gain.

Transferable shares

Societies can also issue transferable shares, or shares that are both withdrawable and transferable, but these transferable offers are to be subject to regulation and incur the costs associated with FSA authorisation.

Some societies issue **bonds** as well as share capital as a way of enabling members to invest more than the £20,000 share limit.

Community Interest Companies

Community Interest Companies (CICs) are a relatively new type of company specifically designed to cater for the needs of social enterprises. *The Companies (Audit, Investigations and Community Enterprise) Act 2004* and *The Community Interest Company Regulations 2005* made under the Act, establish the legislative framework for CICs.

CICs were created to provide a flexible legal form for social enterprises that wanted to pursue trade for social benefit.

Main features of a CIC

The two main features that distinguish CICs from other forms of company are the asset lock and the Community Interest Statement and Report.

Under the **asset lock** provisions, the assets and profits must be permanently retained within the CIC, and used solely for community benefit, or transferred to another organisation which itself has an asset lock, such as a charity, or to another CIC. For instance, a charity could form a CIC to be its trading arm and this CIC could then transfer all its surpluses to the charity.

With every application to form a CIC, a **Community Interest Statement** must be lodged, with the usual documents, seeking company registration. This Community Interest Statement, signed by all the company's intended or actual directors, must certify that the company is formed to serve the community rather than private profit motives. It must also describe the activities the CIC intends to engage in to further this community profit motive.

The Act, taking a sensible and pragmatic approach to this question, says a company satisfies the community interest test if a reasonable person might consider the activities the CIC is undertaking are being carried on for the benefit of the community. There has to be a wider community benefit than benefit to members and employees of the company. The Regulator decides whether applicants for CIC status satisfy this test.

Legal form and share issues

A CIC can be a company limited by guarantee or a company limited by shares.

The company limited by guarantee has no share capital, and has members rather than shareholders. This form of CIC is generally used when the CIC is set up for social purposes and relies on grants and donations.

The majority of CICs are set up as private companies limited by shares. This means that they have the power to issue shares but under the Companies Acts they cannot do this through public issue. "Public issue" includes an offer targeted at any specific section of the public e.g. a community of interest. This limits the issue of share capital to persons already connected with the company i.e. members, employees or debenture/bond holders.

Where an organisation wants to register as a CIC, and be able to offer shares to the general public, it can only be a CIC plc. The plc is the model most associated with big business. This is a very tightly regulated sector with massive compliance requirements, both for share issues and on an ongoing basis, and all of the associated costs. This model would only be suitable for very large scale organisations wishing to raise significant amounts of share capital. They would then be targeting traditional investors who are likely to be more concerned with financial return and capital growth than with social return and community benefit.

Although the Companies Act prevents private companies limited by shares and CICs from offering shares to the general public, it does permit them to raise finance by offering bonds/debentures i.e. loans to the public. To protect investors these offers are regulated under the *Financial Services and Markets Act*, which governs the content of the offer and requires that it is approved and issued by a person regulated under the Financial Services Act (FSA).

Bonds can seem an attractive financing option but, since bond holders rank before shareholders and equally with other lenders for repayment of amounts invested, this can make it harder to secure loans from other more traditional lenders, especially if bonds are secured on the assets of the CIC.

Dividends and interest

CICs can issue shares but the dividends paid on shares are controlled by a cap on returns. The cap was originally set at 5 percentage points above the Bank of England base rate. With base rate at a record low, returns on CICs have proved uncompetitive and unattractive to investors, given the level of risk in the investment. The cap has been reviewed – from 6 April 2010 CICs can now pay dividends of up to 20% of each share.

The loan interest cap, which governs performance related interest payable, has been raised to 10% of the average amount of the CIC's debt, having previously been set at four percentage points above the base rate.

The overall cap for the distribution of profit remains at 35%.

Tax status

CICs do not enjoy the tax advantages of charities; they have to pay Corporation Tax on profits from trading activities, just like other trading companies. They are also not eligible to use Gift Aid to increase the value of donations received.

Who are CICs aimed at?

The CIC is flexible enough to cover enterprises of varying sizes and activities.

Some charities choose to operate a trading arm as a CIC, where the aim of the trading in the subsidiary is pursuit of profits from community benefit trading, rather than commercial trading purely to generate income for the parent charity.

Another target group for incorporation as CICs was seen as unincorporated bodies running recreational, village and community facilities (many with valuable heritable assets) which may see incorporation as a CIC as helping to protect these assets, and through the limited liability principles of company law, protecting those who run them at the same time.

Legal structure limitations

This section of the report summarises the limitations on trading and redeeming shares and on the size of shareholding and should also clarify issues around payments of dividends and reinvestment of profit.

Limitations on trading

1. A **company limited by guarantee** can trade within its objects and must use all profits for its social purposes.
2. A **charitable company** is subject to limitations on the level of trade that it can carry out within the charity, both in terms of preservation of tax exempt status and protection of charitable assets from the risks associated with trading. It can carry out trading through a subsidiary company and gift profits back to the charity.
3. A **community benefit society** can carry out trading. The model rules produced by the sponsoring bodies all adopt a broad brush approach to the rules on objects.
4. **CICs** are designed to allow social enterprises to carry out trading activities.

Limitations on issuing shares

1. A **company limited by guarantee** cannot issue shares. It can issue bonds but offers for bonds must be FSA-approved unless they fall within a special category of offers i.e. offers to a common interest group of a company, such as the members of a not-for-profit company.
2. A **charitable company** cannot have share capital as all assets are held for the benefit of the charity, not its members. A charity can raise money through the issue of bonds but these funds can only be used for its charitable purposes within the charity and could not be used to finance a trading subsidiary.
3. **Community benefit societies** can issue both withdrawable shares and bonds to the public, without recourse to the FSA, as this is an exempt social investment.

   They can also issue transferable shares, although very few do because of the need to find a buyer when the investor wants to sell the shares, and because of the regulatory requirements and costs associated with the issue, which is subject to FSA regulation.

   Energy4All, however, has successfully helped a number of co-operatives to make regulated offers of community shares which are transferable and withdrawable. Transferable shares may be appropriate where the society wants to raise larger amounts of capital, above £1 million.

4. The Companies Act prevents private companies limited by shares and **CICs** from offering shares to the public. It does allow them to issue shares to persons already connected with the company i.e. members, employees and bond holders.

   Only CICs that are registered as PLCs can issue shares to the public.

   The Act does permit CICs to raise finance by offering bonds i.e. loans to the public.

   To protect investors these offers are regulated under the *Financial Services and Markets Act*, which governs the content of the offer and requires that it is approved and issued by a person authorised under the Financial Services Act (FSA).

Limitations on redeeming shares

1. A **company limited by guarantee** has no shares. Bonds/debentures are repaid under the terms of the offer document where they are redeemable i.e. time assigned. Some bonds are irredeemable i.e. bondholders are entitled to interest but there are no provisions for repayment of the original amount of the bond.
2. The above also applies to a **charitable company**. In a trading subsidiary, the share capital is generally a nominal amount held by the parent charity.
3. Withdrawable share capital is unique to co-operative and **community benefit societies** and allows investors to get their money back, subject to the terms and conditions of withdrawal, without having to find a buyer for the shares.

   The ability to buy back shares depends on the society having the cash available to do so; many societies limit the amount that can be withdrawn in any one year to a fixed percentage, often 10%. Other share offers state that share capital cannot be withdrawn for an initial period e.g. the first 3 years to allow for income generation.
4. **CICs** that are registered as private companies can only issue shares to connected persons. These could only be redeemed by selling them on to another member.

Limitations on size of shareholding

1. The maximum investment in shares in a **community benefit society** is £20,000. There is nothing to stop the society raising additional finance from members through bonds or donations.
2. There is no limit on the size of a shareholding in a **CIC**.

Limitations on dividend/interest payments

1. **Companies limited by guarantee** and charities can pay interest on bonds/loans under the terms and conditions of the bond issue. OSCR would want to make sure that these terms are in the best interests of the charity i.e. not above market rate.

2. Members of **community benefit societies** can receive interest on their share capital, but are not entitled to share profits as these are reinvested for community benefit. Societies can pay interest up to a rate “sufficient to attract and retain investment”. This respects the not-for-profit motive of members, while rewarding them for investing and risking their money.

3. Under **CIC** regulations, dividends paid on shares are controlled by a cap on returns. The cap was originally set at 5 percentage points above the Bank of England base rate. With the base rate at a record low, returns on CICs have proved uncompetitive and unattractive to investors, given the level of risk in the investment. The cap has been reviewed – from 6 April 2010 CICs can now pay dividends of up to 20% of each share.

   The loan interest cap, which governs performance related interest payable, has been raised to 10% of the average amount of the CIC's debt, having previously been set at four percentage points above the base rate.

   The overall cap for the distribution of profit remains at 35%.

Limitations on reinvestment of profits

1. A **company limited by guarantee** can only reinvest its profits in furtherance of its objects. Members are not entitled to share in the profits or the assets on dissolution.

2. A **charitable company** must meet the charity test. Under the *Charities and Trustee Investment (Scotland) Act 2005*:

   “7.4) A body which falls within paragraphs (a) and (b) of subsection (1) does not, despite that subsection, meet the charity test if:-

   (a) its constitution allows it to distribute or otherwise apply any of its property (on being wound up or at any other time) for a purpose which is not a charitable purpose.”

   Asked about their position on the issue of community shares, OSCR referred to the above section as the basis for all decisions. All judgments are done on a case by case basis and OSCR consider whether actions are in the best interests of the charity and for the public benefit.

3. The optional statutory asset lock applies to **community benefit societies**. This is similar to the asset lock in CICs, and the restrictions imposed in the dissolution clause for charities, and it ensures that profits are reinvested for the benefit of the community.

   It prevents residual assets being distributed to shareholders on sale or dissolution of the society.

4. CICs have an **asset lock** provision which means that the assets and profits must be permanently retained within the CIC, and used solely for community benefit, or transferred to another organisation which itself has an asset lock, such as a charity, or to another CIC.

Changes in legal structure

Residual assets and dissolution

The asset lock means that, on dissolution, any residual assets must be transferred to another similar asset-locked body, rather than being distributed to members. This asset lock applies to both community benefit societies and CICs, and is the same as the restrictions contained in the dissolution clause of charity governing documents. This is the main feature that dictates whether changes in legal form are permissible.

Conversion to a community benefit society

- A company limited by guarantee can be converted into a community benefit society, allowing it to issue shares.
- A CIC can also be converted into a community benefit society, as both have the asset lock.
- A charitable company limited by guarantee could only be converted into a community benefit company with OSCR's consent.

Conversion to a CIC

- A charity can become a CIC, but it would lose the benefits associated with charitable status.
- A CIC registered as a private company limited by guarantee can convert into a CIC plc if it wants to issue shares to the public.
- A CIC registered as a private company limited by guarantee cannot convert to an ordinary company because of the asset lock.

4. Conclusions

1. Financing community ventures

2.4 Grants, gifts and donations remain the cheapest form of finance, but competition for the shrinking pot (and changes to the Growing Community Asset strand of the Big Lottery towards building acquisition) are forcing groups to seek alternative sources of financing. Many organisations that consider acquiring community assets still think of grant funding as the main option; Scotland does appear to be lagging behind England in the shift from grant dependency to at least partial use of other forms of finance.

2.5 The reduction in the availability of the level of grant finance required for asset acquisition projects means that the traditional model used under community right to buy will be less easily replicated without recourse to alternative means of finance.

2.6 Loans and bond finance is available from institutions and (to a lesser extent) individuals, but the organisation is committed to generating a fixed amount of profit to pay interest and refund capital over the medium to long term.

2.7 Since lenders rank before shareholders for repayment of amounts invested, this can make it harder to secure loans from other more traditional lenders, particularly if bonds are secured on the assets of the organisation.

2.8 Equity investment through community shares is more flexible, longer term, and connects the investor to the enterprise, sharing in the risks and rewards.

2.9 Equity investment can be used as leverage to pull in loan finance from banks and traditional lenders.

2.10 As the majority of community woodlands will not own property, unless this is a naked debenture, the bond will be secured on the land value. This may put the land the money was used to purchase under unnecessary risk, depending on the relationship with the organisation offering the debenture.

2.11 The attraction of in-kind benefits as well as, or more likely, instead of, financial returns may be attractive to community woodlands where, for example, a debenture holder (perhaps another third sector organisation) may receive free access to a charged for area or programme in the woodland.

2.12 Goodwill can be called on, as well as delays in paying dividends, to ensure that income is generated by the issue of shares with minimum and, in some cases, no requirement to pay out interest or capital to investors.

2.13 The best route for community woodlands is the community investor, including those from the diaspora of a particular community. (93% of those who purchase community shares have no plans to withdraw their shares).

2. Community buy-in

2.1 Community is about more than people living in the same area; it needs to be about shared interests, shared values and shared identity.

2.1 Combining community of ‘place’ with community of ‘interest’ is vital. Community investment only works where there is a strong and cohesive community backing for the venture.

2.1 Community share issues generally raise only a small proportion of the capital required but the demonstration of public support raises the profile of the venture and helps to unlock other sources of funding, both grants and loans.

2.1 Although research indicates that investors in community share schemes are more excited by the feeling of ownership of a social project than the monetary returns they may earn, it is important to remember that community investment can involve individuals investing their money with the expectation of getting some return on that investment and of being able to get their money back at some point in the future.

2.1 Though returns can be in-kind, there is a legal right for the investor to remove capital by selling shares, so this becomes a long term liability on the company.

2.1 The Enterprise Investment Scheme (EIS) was mentioned in the report as beneficial to investors in Energy4All. EIS provides tax relief to new equity investors in small firms – 20% of the amount invested can be offset against income tax in the year the investment is made. This can act as an incentive to higher net worth individuals. Unfortunately, EIS only applies to “qualifying investments” – holding, managing or occupying woodlands and any other forestry activities or timber production are specifically excluded, as are property development and farming.

3. Legal model

3.6 The company limited by guarantee is not a suitable model for raising community finance because of its limitations.

3.7 The restrictions on the issue of shares to the public imposed on both companies limited by shares and CICs mean that neither is the ideal vehicle for the issue of community shares. Both can be used to raise loan finance, although again this is subject to FSA regulations and the associated costs.

3.8 The community benefit society is the model used for most community share issues. The updated legislation is straightforward and there seems no good reason why this model should not be suitable for CWA’s purposes.

3.9 The use of withdrawable shares is exempt from both FSA and money laundering regulations which makes the process simple and avoids the costs of professional share issue.

3.10 The cap on interest payments fits with the social purposes espoused by most investors in community shares. They are rewarded for their investment, but not at a rate which inhibits the society from carrying out its social or environmental aims.

3.11 The use of bonds or debentures can be used to raise additional capital from members, on terms that allow modest returns, again without FSA regulation.

3.12 There would seem little reason to set up a more complex legal structure, as the community benefit society allows ownership of community woodlands, trading activity and activity for community benefit, open membership and the ability to raise capital from both share and bond issues. This assumes a shift from grant funding to alternative sources of finance.

3.13 The reach and transparency of community share offers can be increased via the internet, giving greater visibility and comparability. Use of the internet and Facebook allow wider access to more potential investors than traditional communication methods.

3.14 The community benefit society democratic principle of one-member-one–vote, regardless of the value of the value of the member's shareholding would fit well with CWA's ethos.

3.15 Energy4All is an IPS owned by the co-operatives it creates and, as additional co-ops are established they too will share in the ownership of Energy4All. In effect, it acts as an umbrella organisation for other fledgling wind farm co-operatives.

3.16 CWA could consider whether it could take on a similar role for its members and provide support to create community benefit societies for its members.

Appendix 1 - Resources

Publications

Guidance available from the Community Shares website: www.communityshares.org.uk

- Community Investment using IPS legislation
- The Community Shares Programme: One Year On
- Guide to governance and offer documents (July 2010)
- An investor's guide to community shares (July 2010)
- A practitioner's guide to community shares (Mar 2011)

There are plans to have a publicly accessible, searchable database of community-financed societies on the website so that potential investors can see details of membership, share capital, financial returns, turnover and profitability so that they can compare performance.

Co-operatives UK has produced a *Code of Best Practice on Withdrawable Share Capital* which sets out the information that has to be given to prospective members. This covers the risks associated with the investment; the terms and conditions of the investment; details about interest on share capital; the advertising and promotion of the investment offer; and procedures for complaints, monitoring and compliance.

The Plunkett Foundation

Resources include:

- over 20,000 items in the Plunkett Foundation Information Centre collected since its foundation
- a series of advice sheets on setting up and running a community-owned shop and all the resources required for the legal and operational set up
- community questionnaires and staff handbooks
- all the documents required for the issue of shares to the community – application forms, share certificates, register of shares, etc.

Community benefit society model rules

- Co-operatives UK is the national membership organisation for co-operatives of all kinds. It has 2 sets of model rules – one for co-operatives and one for community benefit societies, called the Community Finance Rules.
- Wessex Community Assets (WCA) has developed a set of rules for community benefit societies called the Community Assets Rules.
- Somerset Co-operative Services (SCS) has designed rules for a multi-stakeholder co-operative, providing applicants with the scope to define multiple categories of membership, distinguishing user and non-user roles.

Fuller details of the scope and coverage of each of these sets of rules can be found the *Practitioner's Guide to Governance and Offer Documents* produced by Community Shares.

- The Plunkett Foundation acts as the promoting body for community-owned shops and food enterprises wishing to use its approved model rules.

Model constitutions for CICs

A range of documents covering all of the CIC legal form options can be found at Appendix 1 to the Information and Guidance Notes:-

- Company limited by guarantee with a small membership (model constitution no. 1)
- Company limited by guarantee with a large membership (model constitution no. 2)
- Private Schedule 2 company limited by shares with a small membership (model constitution no.3)
- Private Schedule 2 company limited by shares with a large membership (model constitution no.4)
- Private Schedule 3 company limited by shares with a small membership (model constitution no. 5)
- Private Schedule 3 company limited by shares with a large membership (model constitution no. 6)

These and full guidance on all aspects of CICs can be downloaded from the CIC regulator website at www.cicregulator.gov.uk , Guidance pages tab.