

FUNDING A COMMUNITY BUSINESS WITH Community Shares



Plunkett UK
Rural Community Business

Introduction: seeking community investment

Community Shares are a unique form of exempt, unregulated share capital specific to Co-operative and Community Benefit Societies. They allow Societies to sell shares to the general public without the need to be listed on a stock exchange or comply with investment promotion laws. This makes raising money for your community-owned business from selling Community Shares relatively simple and definitely cost effective.

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They are 'at risk' investments and shareholders do not qualify for any investment protection guarantees and should take professional advice before investing if they are unsure of the risk to their money.

Community Shares allow people to invest their money in a business that they have ownership of, participate in running the Society with an equal say, benefit from limited interest, get their money back if they need it and may benefit from tax relief in some circumstances.

You must have the appropriate legal structure (a Society) to issue a community share offer, which can be described as community investment. Community investment is about engaging communities to invest in themselves. By harnessing the collective investment power of whole communities, relatively large amounts of capital can be raised from many members of the community.

Community investment empowers communities by giving members – as part-owners – a direct say in the success of business, encouraging them to play an active part in its future.

Your members will become your customers, your volunteers, your staff, your advocates.

Finance from community shares can be raised in some cases much more quickly than money from grants or fundraising events. This makes this type of finance suitable for projects that have time constraints and can also attract matching grant-funding.

You may be able to ask potential investors to pledge an amount they would be willing to invest in advance of a formal community share offer. This would give you some indication of the amount you may be able to raise to test the viability of your business plan and decide if your community-owned business is feasible.

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Community shares and legal structure

Community shares are only shares issued by a Co-operative Society or Community Benefit Society.

These are incorporated legal bodies registered under the Co-operative and Community Benefit Societies Act 2014 and registered with the Financial Conduct Authority (FCA). Please note that society registration is distinct from the FCA's function of regulating financial institutions. Plunkett UK has developed and sponsors a set of model rules for the Community Benefit Society model (CBS).

The CBS has several unique features. One of the most important in raising investment from a community, is that each member has one vote, irrespective of the number of shares they have purchased. This one-member-one-vote principle makes for a democratic structure. Other facets of the CBS that work well in the environment of community business are the principles of limited return on investment (the interest payable on shares must be limited to what is 'necessary to obtain and retain enough capital to run the business') and the disallowing of artificial restrictions on membership.

The critical feature of the CBS is the ability to issue a particular type of exempt, unregulated share capital or 'community share'. This type of share is withdrawable by the members, subject to any conditions stated in the society's rules. Plunkett UK's model rules allow for community shares and give clear guidance on the most appropriate terms for withdrawal of share capital.

Plunkett UK recommends this legal structure for community businesses as it has a well-proven track record as a successful model for raising investment within communities. People investing in societies usually do so for socially motivated or philanthropic reasons, rather than for a financial return. The inherent democracy, limited returns and 'asset lock' (i.e. upon dissolution the assets cannot be shared among the members but must go to another asset-locked organisation with similar objects) of the CBS are all positive benefits for a community business.

Membership in a CBS is by the purchase of at least one share. The minimum share investment in a CBS could therefore be as little as £1 and the current statutory maximum shareholding by one individual or company in a CBS is £100,000 – with the exception of societies, which have the ability to make unlimited investment in another society.

Societies can choose the maximum amount they want any single person to invest to avoid a significant amount of share capital being held by a small number of members; this could lead to liquidity problems and the risk of de-stabilisation if the holders ask to withdraw their shares.

There is also the risk of undue influence, despite shareholders holding equal voting rights. HMRC states that to qualify for tax relief (if available), investors and their immediate family cannot own more than 30% of the share and loan capital in a society – and the Community Shares Unit recommends that 10% to 20% is closer to the ideal.

For a more detailed discussion on legal structures, please refer to Co-operatives UK's Simply Legal publication. This publication, plus other invaluable resources as well as case studies, can all be found on the regularly updated Co-ops UK website <https://www.uk.coop/support-your-co-op/community-shares>. You may also want to read Plunkett UK's Brief Guide to Legal Structures available at <https://plunkett.co.uk/wp-content/uploads/Legal-Structures.pdf>

The decision-making stage

Having decided a CBS would be the most suitable legal form for your community business project, you can start to plan to raise the necessary finance. This is likely to be a mix of community shares, loans, donations and grants.

To set up and register a CBS you need at least three members. Decisions must be made by a governing body (usually referred to as the 'management committee' or, if a group prefers, 'board of directors'). In the case of a newly registered CBS, the management committee will not yet have been democratically appointed, and it is often a 'steering group' that launches the share offer, the literature of which should include details of how and when the management committee will then be later elected by the members. There is no longer a lower age limit for CBS members, but the minimum age limit for governing body members is age 16.

The governing body or 'steering group' will begin to research community share offers. For most people setting up a community business, this will be the first time they will have come across the CBS legal form and the unusual nature of its constitution and unique attributes, particularly the withdrawable nature of the share capital. This is when membership or advisory support from Plunkett UK <https://plunkett.co.uk/how-we-help/> or Co-ops UK can be very helpful in providing advice and information at every stage.

Once you have registered your rules with the FCA, you can start actively seeking membership by the sale of shares, either as a first Membership offer, or as a formal, time limited 'Closed' or ongoing 'Open' Share Offer.



Critical features of the share offer

The decisions that create the most discussion are listed below. It is worth spending time contacting other successful projects who are often happy to share their experience and learning, comparing notes with similar businesses, and taking advice from Plunkett UK or other advisory organisations.

What should be the face value of one share?

It could be anything from £1 upwards (please note that the face value of a community share, unlike a share in a company, never increases). Plunkett UK recommends setting the value at £1 per share to make it simpler to allow for partial withdrawal of shares and transfer on death between several beneficiaries.

What should be the minimum shareholding or membership eligibility?

One share? Ten shares? Fifty shares? If the purpose of the community share offer is just to generate membership rather than capital, then it would be more appropriate to keep it simple, widely affordable and inclusive – and therefore set the minimum at one share. Voting rights apply to the first share owned, however many you actually own over time.

However, if you need to raise substantial sums of money, the permutations are limitless. Plunkett UK would still recommend setting the value of each share at £1 but you can set a minimum shareholding requirement in order to raise enough money balanced with affordability and equity.

For example, when grant funding is more readily available, village community shop projects might select £10 to £20 as face value and to allow membership with the purchase of only one share. In recent years, projects seeking higher investment have set the face value higher or lower, but stipulate on a minimum shareholding (and thus eligibility for membership) of several shares.

Raising the money to purchase a pub freehold will generally require a higher minimum investment, but this can be justified by taking into account the higher average costs of a pub, compared to a shop. The minimum investment does have to suit the local economic and social conditions, as well as looking at the sums required. Looking at the community share offers run by pub projects, the minimum shareholding has been widely spread between £10 and £1,000, with the majority between £75 and £250.

What should be the timescale of the share offer?

This may be dictated by circumstances, especially in the case of purchasing assets of community value (ACV) in a set time. But psychology also plays a role: if it is a time-bound offer, it is worth focusing people's minds on the target, and periods as short as 4 to 8 weeks have proved to be successful, although most will be between three and six months.

If interest is to be payable on the shares, at what level should it be set?

This will depend on your type of project and needs to be studied carefully in the context of the business plan and cash flow forecasting; it would be wise to take advice as well. Community-owned village shops have rarely paid interest on their shares as profit margins can be very low in the convenience retail sector. Pubs however, have consistently offered limited interest as a recognition of higher risk investment and the initial level of interest is dictated by any surplus available. It is widely accepted that it makes sense to raise as much share capital as possible paying a low level of interest (e.g. 2% above base rate), than to pay out interest at several points higher on a commercial loan. Interest is often paid after several years of profitable trading to allow the Society to build a cash reserve to pay interest and redeem withdrawable shares.

Should there be restrictions on withdrawals?

There is definitely a need to restrict withdrawals to protect the cashflow and solvency of the business and it should be written in the rules that any withdrawals are only made at the discretion of the management committee whose task it would be to decide whether the business is healthy enough to offer such withdrawals. Each year the management committee or governing body may state what level of withdrawals as a percentage of the share capital will be allowed and on what terms, usually a first come, first served basis.

If the project is to be eligible for the government's tax relief schemes such as the Seed Enterprise Investment Scheme (SEIS) and the Enterprise Investment Scheme (EIS), it is a condition of these schemes that those people investing in shares and claiming tax relief cannot withdraw them for at least three years. It is also very wise to cap the level of allowable withdrawals in any one year. Plunkett UK recommends setting the cap to 10% of initial share capital so that the business can plan to have that level of liquidity in the future.

What should be the investment target?

Although this is really the first question you will want to answer, it is perhaps the hardest question to resolve.

The answer will rely on several factors:

- **Awareness of local demographics** – it may be challenging trying to raise unrealistic sums of money from shares in a deprived area with low disposable income, but a high level of membership and community engagement could still be aimed for, which might be of help when seeking grant funding. Community investment and equity is a positive benefit of issuing community shares and can demonstrate social financial inclusion and diverse community ownership. Conversely, in a prosperous area, the share offer could be the primary means of funding the project and a high target can be set as long as the principles of financial inclusion are met.
- **Local importance** – for instance, if the enterprise is to preserve a precious local asset, the importance of that asset will be reflected in the amount you can aim to raise. The question is then: how much is the asset worth to each household/investor? This can also apply to a service: for example, it is well known that the existence of a village shop can add as much as 5% to local property values.
- **The financial ability to pay interest** – this will depend to a great extent on the nature of the business and other factors such as loan overheads, which should all have been covered in the business plan. It is vital to have written a full business plan before you launch your share issue as you should be able to offer copies to prospective shareholders or through a link to your website. If the business can offer regular interest payments to shareholders, then its shares become an attractive long-term investment opportunity as well as offering social return.
- **The eligibility for tax relief schemes** – being able to offer potential investors tax relief on their share investment of 30% in the case of EIS or 50% through SEIS means that the investors may be able to afford to invest a greater amount in the project. Tax relief depends on the business model and further information is available from HMRC. <https://www.gov.uk/guidance/venture-capital-schemes-tax-relief-for-investors>
- **Realistic projections** – there is a need to be accurate about the later liquidity of the enterprise to enable withdrawal of share capital. It is usual and acceptable to set a cap such as only 10% of share capital can be withdrawn in any one year. However, it would be irresponsible to seek such a high level of investment that might mean the planned withdrawal of even this modest percentage could potentially damage the business and thus the request for withdrawal would have to be refused.

Timing the offer and seeking pledges

The timing of a community share offer is a critical decision made by the steering group and, as the actual launch of the offer is a formal commitment, it is important to have important elements in place.

Firstly, the feasibility of the project (assuming the financing of it has been realistically assessed) must be beyond doubt: it may seem like stating the obvious, but if a property is to be acquired then there must be a reasonable chance of buying or leasing it; if planning consent is required then it would be sensible to have positive feedback from the planners, and so on. There is no greater disappointment than having to return people's money because the plan wasn't possible to execute.

This is why some community businesses decide to put in the extra work entailed in seeking pledges and having their share offer independently assessed and accredited with the Community Shares Standard Mark.

Issuing pledge letters and forms, and collecting and collating the responses, can be time-consuming but does provide a useful database of prospective investors, amounts that can be raised and financial details. The information must be accurate; the project has to be explained; the legalities and details of the potential offer and corporate structure need to be outlined and data protection compliance maintained.

Following legislation (Localism Act, 2011) which has been introduced to enable communities to list their important assets, known as Assets of Community Value or ACV, the timing of a share offer can become governed by the timetable of the listing process, expression of interest and moratorium periods.

The Community Right to Bid can be used effectively to 'pause' the sale of buildings or land you care about such as your local pub, shop, library or football ground. It gives your community time to develop a bid to agree a price to buy it. Once an asset has been listed with the local council, you have up to six months' moratorium from the listing date in which to prepare that bid. Seeking pledges is a good way of coping with these time constraints, but if there is some certainty that the bid will be accepted then it may make sense to prepare and launch the actual share offer, especially if there is matched grant funding available. Pledges could also be collected during the listing process itself (councils are given eight weeks in which to examine the application).

You can present a request for pledges in various different ways, but the most straightforward one is as a letter, written in an informative but accessible way and a pledge form to gather the necessary information and payment methods.



Pledge letter and form guidance

Who is the letter from?

Introduce yourselves by describing what the group is called, and the name of the project. It is worth giving some contact names, explaining that you are volunteers and how you are constituted at the moment. A template can be downloaded from the Plunkett UK Member Hub website.

The pledge form should explain that a pledge is non-binding but an indication of a willingness to support and a potential investment value to help determine the viability of a community share offer. It should capture the full personal details of prospective community share applicants and obtain consent to be contacted in relation to purchasing shares to meet data protection requirements. Information that must be secured and protected by your group as a data controller.

Finance – sources and targets

While explaining that you are currently researching your funding options, e.g. what grants may be available, other forms of investment and loans etc., explain the timescale and overall target. You should explain that the funds from your community can act as leverage for grants, and that you need to establish how much the community is willing to invest to make the project work.

The purpose of the letter is to learn how much the recipient would be prepared to contribute.

The legal structure, the shares and potential returns

You need to explain the legal structure you intend to set up, i.e. a society in which the community can invest by buying shares. Outline the society's primary objective, plus the fact that in the longer term if there is any surplus, it can be used for the benefit of the community.

Explain that anyone who purchases the minimum amount of shares will become a member and have a vote (and therefore have a say in the affairs of the business) at general meetings and that there will be a committee elected by the members to oversee the business. Point out that the society will operate strictly on a 'one member, one vote' basis, regardless of how many shares held.

The nature of community shares can be explained in simple terms – e.g. 'You may be able to recoup your initial investment in the future by selling your shares back to the Society (via a special type of shareholding known as a withdrawable share). To give the business a chance to establish itself we will need to agree an initial period during which the buying back of shares will be closely restricted, but thereafter the expectation is that there may be profits to fund withdrawals within parameters agreed by the members.'

How the recipient can help

The more people that are able to pledge to buy shares and the wider the section of the community that is actively involved in the enterprise, the greater is the likelihood that it will be a success.

Some may not be interested in purchasing shares and may prefer to make a donation to the project instead, so you can say that this would be very warmly received. Ask that the attached pledge form is filled in so that you can assess the level of support, and give assurance that no money changes hands at this stage and that this is not a final commitment. More financial information and details of the proposals will be provided in due course to enable those interested to decide whether to invest in some shares.

How to communicate

Provide a contact name and number for questions, an easy way to return the form (by email as well) and, most importantly, the deadline!





Crowdfunding

Crowdfunding sites can play an important role in the funding of a project, traditionally by raising small donations from a large number of people by using an online platform.

Crowdfunding sites can play an important role in the funding of a project, traditionally by raising small donations from a large number of people by using an online platform. It can be a very useful way of raising start-up funds, and also tests the idea of community support for a project.

However, some crowdfunding sites now offer the facility for managing and receiving pledges for a community share offer or for selling community shares. This can be a very convenient way of purchasing shares for people that do the majority of their financial transactions online. It is useful to make the decision early, as to whether to raise donations or run the share offer online.

Community Shares Standard Mark

To support your proposals in your share offer and to validate your claims, you could consider applying for the Standard Mark.

This would provide scrutiny of your business plan, share offer and governing document by a licensed practitioner and can provide additional confidence to prospective investors that your proposal is robust, comparable, risk assessed, follows best practice and is clearly written to be easily understood.

The cost of assessment can be effective considering the increased investment it may raise from being awarded the mark.

For detailed information about seeking the Community Shares Standard Mark, please refer to: <https://www.uk.coop/start-new-co-op/support/community-shares/standards>

Checklist

A checklist of what needs to be in place before launching a share offer might look like this:

- ☐ Steering group formed
- ☐ Decisions made (section 2)
- ☐ Business plan completed
- ☐ Incorporation completed
- ☐ Tax relief scheme advance assurance received if applicable
- ☐ Planning permission obtained or assured
- ☐ Offer/proposal likely to be accepted
- ☐ Bank account opened
- ☐ Share offer documents written
- ☐ Standard Mark awarded (if needed)



Step-by-step guide

How to pitch it

For a successful community share offer, you need a good, concise and attractive share offer document. This does not need to be a very lengthy document, but it does need to include relevant extracts from your business plan and be read in conjunction with it.

Plunkett UK has many examples provided by communities who are prepared to share their documents, but here are some best practices.

As you are most likely reaching out to a wide and varied community, the share offer needs to be easily understood. There will be people investing in community shares who have never invested in any type of shares before, and you will need to overcome any concerns they may have.

Equally you must advise applicants for shares that their money may be at risk and if they cannot afford to lose it, then they should not invest or take professional advice before doing so.

There will be individuals in your community who will only wish to invest the minimum amount, but there will be others who will be prepared to make a significant investment. It is important not to make assumptions about who will and who will not invest and to treat all applications for shares equally.

For those who may not be regular investors, the language should be easy to read and understand, with any technical terms explained simply. People who are very familiar with company law and share ownership will need the differences between company shares and society shares explained in some detail.

It is important to explain the social return of community investment to deliver outcomes that exceed the purely financial economic gains from the investment. People are using their capital to preserve or create a local amenity or asset – something for future generations to enjoy – and it is worth explaining what a very worthwhile way of using money this is, with examples of the difference it can make to your community, staff and volunteers, the environment and your supply chain.

Starting the document

At the end of this chapter there is a checklist for you to use once you have finished your document.

But to start with, here is a general idea of what will need to be included at some point. This is an exercise in self-regulation, as the share offer will not be regulated by the FCA, or anyone else. We are therefore promoting these ideas as best practice. Please note that this publication is very much an overview. The critical content to make sure you have included is:

- Purpose of the investment
- Projected social return
- Minimum/maximum investment
- Withdrawal terms
- Projected financial return, if any
- Risk factors and management
- Members' rights and responsibilities
- Credentials of your committee as promoters
- Legal structure of Society
- Election of committee/board and AGM
- Regulation of the offer
- Tax relief eligibility
- How to apply





The offer document, section by section

Ideally the share offer document will be between six to ten pages long, with important information on the front page, and the text needs to be concise, accurate, lively and clear.

The front page

This should give a short summary of the project.

It should include:

- The name of the Society
- The purpose of the share offer
- The opening and closing dates of the offer (if timed)
- The minimum, optimum and maximum offer targets
- The Society's registration number and registered office

Write your document to be engaging and interesting to read!

As well as being a credible business proposal, it is important to address the marketing element of the offer document. The front page will convey the identity of the community business and the professionalism of the people leading it, so it is worth spending time on it.

Ideally, the front page should include a photo or pictorial representation and, if the subject of the share offer does not yet exist then an artist's impression can be very effective.

The front page is also a good place to reach out with a direct plea, such as 'We need your help' or 'Please share our vision', for maximum impact.

It is very helpful to include an Executive Summary, probably on page 2.

To develop this and to give an easily digested summary of what the full document will contain and what the project is about, there is no harm in going back to the basic principles of: What – Who – Why – Where – When – How. If you use these as a starting point you won't go too far wrong! Use this section to inform investors that this is an at risk investment and they may lose some or all of their money as it is not guaranteed and should take professional advice if they are unsure.

Moving on to the rest of the document, you need to think carefully about your headings. Useful examples for structuring the text might be as follows (not necessarily in this order):

- Who we are
- The story so far
- Our vision and objectives
- How it works
- The share offer
- Frequently asked questions
- Important points to consider before investing
- Contact details

Explain the legal structure

Answering a question like ‘Who we are’ leads inevitably to a description of the legal structure, and the steering group behind it. This must be accurate and clear. Explain how the group has formed and why. Give some credentials and the availability of the business plan. Try to avoid cluttering with too much detail, such as reproducing information that can be cross-referenced instead. It can be explained that the rules of the Society, contact details of the steering group and the business plan are all available on request – and are ideally uploaded onto your website, so that you can easily refer to that.

A good simple example for describing the CBS legal structure is:

‘XXX Ltd is Community Benefit Society registration no. xxxx using the model rules developed by the Plunkett UK and registered with the Financial Conduct Authority (‘FCA’). In its rules is embedded the principle that if the Society has a surplus, this may be made available for distribution to other community or charitable projects.’

Tell your story to gain support!

You need to convey the background and your unique story, in a lively and concise a manner. You might decide this is the best way to start your document and follow it up with details of who you are. Keep to a brief timeline, explain your objectives and why there is a need for a community business over the forms of ownership in this situation. It may be that by telling your story, you can also cover **who you are** and how **your vision and objectives developed**.

This part of the document is critical for activating your campaign – it can easily be underestimated, and can become too focused on the legalities and detail and not communicate the story behind the share offer.

Explain community share ownership

How does community share ownership work? You will already have introduced the notion of community shares in your objectives section –

e.g. ‘We propose to fund the project by offering shares in the business to the local community’ – but you need to develop a detailed explanation of exactly how the share offer works, under headings such as:

- **The share issue** (timing, target, minimum, optimum and maximum shareholding)
- **Community shares** (differences to ordinary shares; no increase in face value; one-member, one-vote irrespective of number of shares held)
- **Withdrawal of shares** (the terms and restrictions on withdrawal)
- **Returns on investment** (the social return; the likelihood of interest payments)
- **Risk factors** (potential loss of value; lack of regulation; no recourse to ombudsman; failure to raise funds)
- **Tax relief on shares** (under a tax relief scheme such as SEIS/EIS)
- **Management committee and members’ rights** (who is leading the project; the AGM; the elections; the setting of withdrawal terms and interest on shares).

A good example of a concise description of a share offer, covering several of these points, is given opposite. This example is an abbreviated version of a share offer document of a community pub, which has established in its business plan that it intends to pay interest on shares.

EXAMPLE

The basic principles of a community share offer that need explaining

This share issue has been designed to give local people and organisations the opportunity to contribute financially, on a long term basis, to the business of Xxxx Ltd. Our expectation is that shareholder members will largely come from the local community, but we would also welcome and encourage contributors from further afield. Members are entitled to apply for shares at a cost of £X per share with a minimum investment of £X and a maximum investment of up to £X per person or organisation. Everyone who is a shareholder holds one vote. This means that everyone has an equal voice, regardless of the size of their investment.

These shares are not transferable and cannot be sold. The only way to recover the value of the shares purchased is to give three months' notice of withdrawal to the Management Committee. Shares cannot be withdrawn until at least three years have elapsed from the date of the share issue and then only at the discretion of the Management Committee.

You may want to include in your share offer that the amount available in any one financial year will be 10% of the total value of shares outstanding. Should withdrawal requests exceed the 10% figure, investors would receive a pro rata payment based on their original investment.

All withdrawals will be paid from trading surpluses or new share capital.

The Management Committee will have the authority to refuse a withdrawal request if it would endanger the business.

To pay interest to shareholders, the interest rate for each year will be proposed by the Management Committee and put to vote at the Annual General Meeting. The proposal will be based on the performance of the Society and will prioritise the need to maintain reserves and community benefit. Interest will be paid gross to members.

Interest will be paid by the Society to the investor and it is each member's responsibility to declare such earnings to HMRC if appropriate. It is important to note that the value of the shares will not increase. The only financial benefit for members is the interest paid annually.

The member's liability for the business is limited to the value of their shares.

If the building or other assets are ever sold, for whatever reason, the shareholders would be repaid their investment from the proceeds of such sale, after repayment of any debts. Any surplus would have to be paid to a charitable or community body.



Outline the risk factors

There are three aspects to dealing with investment risks in the share offer document. Firstly, it is good practice to examine the risks to the business itself. A small section explaining the risks as you see them at this stage is helpful to the potential investor.

There may be room in the share offer document to include a small Strengths, Weaknesses, Opportunities (SWOT) and Political, Economic, Social, Technological, Legal and Environmental (PESTLE) analysis; otherwise the potential members/investors can be referred back to the Business Plan.

Here is a good example of a short 'risk analysis' section using a Red/Amber/Green assessment of severity and likelihood with management measures:

Risk	Severity	Likelihood	Mitigation
The failure to agree the purchase of the existing shop premises from the existing owner on suitable terms	Severe	Possible	RICS Red Book Independent Valuation
The cost of purchase being beyond economic viability	Severe	Unlikely	Robust business planning and cost management
The failure to achieve the predicted level of turnover	Critical	Possible	Extensive and robust market research and credible marketing plan
Profit levels fail to cover costs	Critical	Possible	Effective buying policy and monitoring of costs and margins
Restrictive government legislation	Tolerable	Unlikely	Limit sales of restricted goods such as alcohol and tobacco
Insufficient volunteers to run the shop	Critical	Possible	Effective volunteer recruitment, management support and training

This list is not necessarily comprehensive, and any trading activity is vulnerable to change or unanticipated risk, such as the 2021 Covid pandemic.

It is important to show how each risk will impact on the business and how you would mitigate these risks by putting in place monitoring and management.

The second element of risk arises from the lack of regulation on community shares.

While this is generally perceived as a benefit, it does lend an extra risk to the investor that must be explained if the share offer is being promoted responsibly. An appropriate wording for this would be:

‘Our share offer is exempt from the Financial Services and Markets Act 2000 or subsidiary regulations; this means you have no right of complaint to an ombudsman. A community benefit society is registered with, but not authorised by, the Financial Conduct Authority and therefore the money you pay for your shares is not safeguarded by any depositor protection scheme or dispute resolution scheme. As the whole of your investment could carry a risk, please consider it carefully in the context of the complete share offer document and, if needed, seek independent professional advice.’

It is also worth pointing out that the Society confers limited liability to the value of your shareholding, so that should the project fail, no further liability can fall on the shareholders.

The third significant area of risk is that the share offer will not reach its target and the project will fail. It must be clearly stated that in this circumstance the potential investor will receive their money back. This can be added to the section on the share issue with wording such as:

‘If this share issue raises less than the sum required to proceed with the project, then all those who have invested will be reimbursed in entirety and the share issue will be deemed to have failed.’



Eligibility for tax relief

The CBS rules enable societies in certain circumstances to offer tax relief on withdrawable shares, but you will need to confirm your project eligibility by contacting HMRC and discussing your own particular circumstances and business model with them to obtain pre-approval. <https://www.gov.uk/guidance/venture-capital-schemes-apply-for-advance-assurance>

That community investment can attract tax benefits will come as a surprise to many people, and it is worth highlighting this benefit in the share offer document, but investors must check their own eligibility for tax relief and it is not the Society's responsibility to action it for them. More detail on tax relief on shares is given on page (check).

Important points / frequently asked questions

An effective way of presenting the legalities and mechanics of the share offer is to have a separate section at the end of the share offer document which lists many frequently asked questions in one place. This frees up the bulk of the document for a good exposition of the enterprise, the people involved, their vision and objectives.

A list of important points can also be presented which the reader must read and understand these before investing. Having a checkbox on the signed community share application form for each could provide confirmation.

These could cover:

- Minimum/maximum investment
- Age limit of membership
- Shares are non-transferable
- Face value of shares cannot increase but they may reduce in value if assets are worth less than liabilities
- One member one vote
- Restrictions on withdrawal
- Interest payments
- Lack of recourse to ombudsman
- The need to seek independent advice, etc.

Plunkett UK has plenty of good examples of share offer documents that have developed lists of critical points and FAQs in this way and that are available to be shared.

Applications

Finally, and most importantly, you need to explain how to apply for shares.

Online applications are becoming very popular, but there will still be a need for paper applications, so make these easy to fill in, and equally easy to return. Application forms should be consistent with the offer document and describe exactly what is being applied for.

Hard copy applications

The application form can either be a loose-leaf insert or a detachable page, but it needs to be very distinct and to collect all the data you need.

In addition to the usual information, you can ask the applicant to indicate that they have read the share offer document and whether they will be applying for tax relief and what should happen to their shares when they die.

You will need full addresses and email addresses for administrative purposes but ensure you comply with data protection legislation by obtaining consent for names, addresses and email addresses to be used for communications other than directly related to membership. Make sure that any age limit is clear and that there is no mistaking the minimum and maximum investment amounts.

Online applications

Some societies have successfully used digital forms and social media to ensure that they can capture the audience most likely to subscribe to shares online and have devised their own methods of online application. Others have just uploaded their share documents to their website for easy access.

However, a new and effective solution to this is through a crowdfunding site which allows an online share-purchasing platform that applies a percentage fee to applications. It allows supporters to find out all about the community share offer, register as a member and purchase shares in a convenient process that does not require application forms and postage. Payment is taken by direct debit or bank transfer when the share offer closes successfully.

A yw eich dogfen yn gyflawn?

Defnyddiwch y rhestr wirio hon i asesu a yw'r holl wybodaeth bwysig wedi'i chynnwys yn y ddogfen.

Checklist

- ☐ Society registration number
- ☐ Name and registered address of the Society
- ☐ Officers of the Society – and give contact details of at least one Officer
- ☐ Details of election of Officers at AGM
- ☐ Legal structure
- ☐ Description of legal structure – i.e. Community Benefit Society Registered with (but not authorised by) FCA
- ☐ One member one vote, irrespective of size of shareholding
- ☐ Surplus to benefit the community
- ☐ Limited liability of members
- ☐ Either statutory maximum investment (£100,000 currently) or set your own
- ☐ Committee elections annually at AGM
- ☐ Age limit for members (this will have been established when rules registered)

Community shares

- ☐ Face value cannot increase
- ☐ Non-transferable except on death or bankruptcy
- ☐ Withdrawable on application and at the discretion of the Committee
- ☐ Interest is payable at the discretion of Committee and as voted at AGM
- ☐ Not protected by FCA so no recourse to ombudsman
- ☐ Community Shares Standard Mark (if awarded)

This share offer

- ☐ Purpose of the investment, vision and objectives
- ☐ Timing of the offer (start/end dates)
- ☐ Share offer targets (minimum to allow the project to go ahead, optimum target which will fulfil your business plan, and maximum target, beyond which you would refuse share applications)
- ☐ Total funds that need to be raised overall and where the balance of funds will come from
- ☐ Projected social return
- ☐ Projected financial return and when this will become payable
- ☐ Availability of the Business Plan
- ☐ Terms of withdrawal, i.e. tie-in period, cap on withdrawals
- ☐ Risk factors spelt out
- ☐ Contingency arrangements if share offer fall short
- ☐ Reimbursement if share offer fails
- ☐ Recommendation to seek independent financial advice
- ☐ Tax relief explanation (if the share offer is eligible)
- ☐ How to apply

Tax relief on community shares

HM Revenue and Customs (HMRC) operate tax relief schemes to encourage investment in both private and community enterprises. This includes Seed Enterprise Investment Scheme (SEIS) and the Enterprise Investment Schemes (EIS).

Before developing a community share offer, it is important to obtain advice on the likelihood of your particular enterprise qualifying for tax relief.

<https://www.gov.uk/guidance/venture-capital-schemes-apply-for-advance-assurance>

Plunkett UK can signpost you to the relevant department of HMRC, which at the time of print, is:

Small Company Enterprise Centre (SCEC)

Tel: **0300 123 1083**

E-mail: enterprise.centre@hmrc.gsi.gov.uk

Being able to offer tax relief on community shares has shown a demonstrable increase in the amount of investment in societies. The size of the relief (30% of the amount invested can be offset against tax liabilities, or in the case of SEIS, 50%) plus the relatively straightforward way to apply, makes this an attractive option for societies and it is worthwhile factoring the application process for tax relief into your timescale.

If a community business wishes to offer tax relief to its investors, it is prudent to apply first to find out whether it is eligible by completing an advance assurance process.

For a society offering SEIS or EIS, this will involve sending a copy of its rules and a draft share offer document, along with the Enterprise Investment Scheme Advance Assurance form, which is downloadable from www.gov.uk.

You should allow eight weeks or more for the application to be considered.

If the community business goes ahead, after four months' trading it can apply formally using the appropriate form available on request for the SCEC or the HMRC website. At this stage, a list of all those investors who will be seeking tax relief has to be submitted – so it is good practice to ensure that, on application for shares, all investors are asked to indicate (by a tick box, generally) whether they will be taking advantage of the tax relief scheme. (Note: if the organisation is already trading it can apply immediately. Advance assurance is not a mandatory process).

Key features

SEIS – tax relief amounts to 50% of the investment

The application cannot be accepted by the SCEC unless the company has been trading for at least four months. It also cannot be accepted if it submitted later than two years after the end of the year of assessment in which the shares were issued (or two years after the end of the four-month period if that is after the end of that year of assessment).

The higher tax relief rate under SEIS is available to smaller schemes under certain strict conditions. Currently held gross assets must not exceed £200,000 in value, the business must be less than two years old, and there should be no more than 25 employees.

There is a maximum cumulative investment per company/society for SEIS of £150,000, whereas the limit for EIS is £5 million. This means that for share offers with targets around the £150,000 mark, some careful thought has to be given as to which scheme to go for. All details are easily found on HMRC's website and as there are changes to tax legislation on a regular basis it is worth checking carefully.

EIS – tax relief amounts to 30% of the investment

To be eligible for SEIS/EIS:

- Shares must be held for a minimum of three years.
- Shares must be paid up and fully at risk, with no preferential rights to any form of financial return or withdrawal.
- Most trades qualify, but some do not; and this varies between SEIS/EIS so check on the website.

Problematic areas encountered by societies include the restriction on leasing or letting, which has been interpreted as preventing the eligibility.

A good example of wording for the share offer document would be:

‘We have received advance assurance that this Share Offer will qualify for tax relief. This would mean that eligible taxpayers who purchase shares for any amount up to the maximum of £X can apply for income tax relief equal to xx% of the amount invested, provided the shares are held for a minimum of three years. For more information see: <http://www.hmrc.gov.uk/>

The Association will issue each eligible investor with the appropriate form to enable them to claim tax relief. It is the responsibility of each investor to make their own enquiries and to satisfy themselves as to their eligibility for such tax relief.’



Share certificates and share register

Share certificates

Share certificates are not mandatory but they are usually welcomed by investors.

It is best not to issue them until the share offer is completed and the project is definitely going ahead. If there is likely to be a delay between collecting the funds and declaring success, then just issue receipts for the shares in the meantime. A share certificate can be very simple.

Minimum information to be included

- Certificate number
- The full title of your organisation, its registered number and status
- Registered under the Co-operative and Community Benefit Societies Act 2014.
- We recommend you use the words: Issued in compliance with and subject to the provisions of the Society's registered rules
- The number of shares, value of shares and the amount paid
- Include the shareholder's address and a practical consideration might be to include (either on the share certificate itself or in a covering document) the words 'Please notify any changes of address to ensure the share register is kept up to date')
- Ensure the date of issue is clearly stated

Signing the certificates

There is no legal necessity for a member(s) of the committee to sign the certificate, but it is worth considering. On the positive side, it adds gravitas; on the negative side, it can be a lot of work!

Share register

The register of shareholders must be kept up to date and administered by someone who is prepared to pay careful attention to accuracy. The addresses need to be kept in a consistent manner so that address labels can be easily generated. If you ask for email addresses and include these on your database, ensure that these are not used or released without authorisation. Keep the database secure and password controlled.

Be careful to date the entries, as there will be a time-specific share withdrawal process.

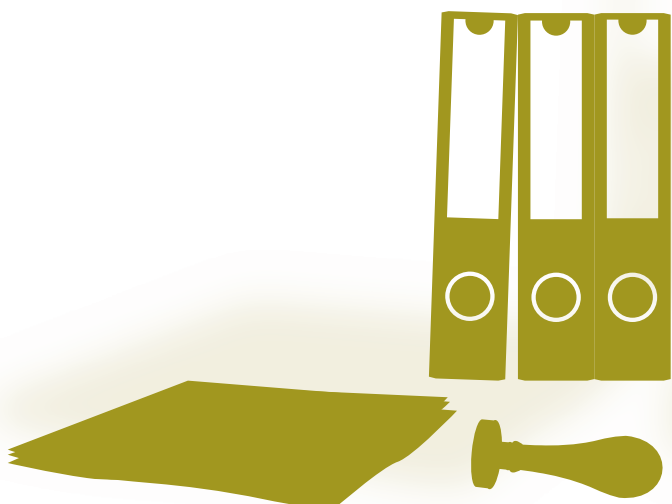
You can reassure your shareholders that the Management Committee will keep the share register in a password controlled confidential environment but, as in a private company, shareholders are entitled to request to view the share register.

However, you can anticipate that the great majority of shareholders will respect that others may not wish their shareholding to be general knowledge.

The register must contain:

- Members' names and addresses and the dates at which they were registered as members / ceased to be members.
- Names and addresses of the Society's management committee (and the dates they took up office
- A statement of the number of shares held by each member and the amount paid (or agreed to be considered paid) on them
- A statement of property or other loans held in the Society by each member (not personal property or loans)

All are confidential, but the first two are 'available for inspection' – that is, a member can ask the Secretary to see the information.



Glossary

Asset lock: A legal clause that prevents the assets of a company or society (income or capital) being used for private gain rather than the stated purposes of the organisation. An asset lock is incorporated into the formal structure of a Community Benefit Society, a Community Interest Company (CIC) or a charitable organisation.

Asset of community value (ACV): Land or property of importance to a local community which is subject to additional protection from development under the Localism Act 2011.

Bencom: An abbreviation of ‘Society for the benefit of the community’, also known as Community Benefit Society.

Community Benefit Society (CBS): An incorporated CBS for the benefit of the community. Profits are not distributed among members but are instead returned to the community. It must also be set up with social objectives to conduct a business or trade. Registered with the FCA.

Community share: Type of share offered by a CBS, which can be withdrawn from the society itself. A community share cannot go up in value but may go down, at the discretion of the directors, if a society has long-term accumulated losses.

Co-op Society: Structured and run with co-operative principles. The key feature of a co-operative is ownership and control by members. Registered with the FCA.

Enterprise Investment Scheme (EIS): Offers tax relief on share capital in qualifying businesses – see: <http://www.hmrc.gov.uk/eis>

Financial Conduct Authority (FCA): The two types of CBS are registered with the FCA, but the FCA does not regulate investment in CBSs and so members cannot apply to the Financial Services Compensation Scheme (FSCS) and have no right of complaint to the Financial Ombudsman.

Funding plan: Part of the business planning process in which the various ways of financing a society’s activities (via shares, grants, donations and loans) are assessed and planned.

Membership offer: A type of community share offer in which the amount invested in share capital is restricted to a nominal sum. This might be suitable for a project where the level of membership is more important than the money raised, either because the project itself has low start-up costs or because the majority of the funding (if funding is necessary) has been acquired some other way e.g. grants.

Open offer: A way to describe a community share offer that is not subject to target amount or timescale, but is on-going.

Pioneer offer: This is a community share offer to founding members for high-risk capital to get ‘investment-ready’. Often those who are passionate about a project are prepared to put their hands in their pockets before the project is fully formed; defining this start-up capital as pioneer shares therefore offers such individuals at least the same rights and benefits as other shareholders, should the project succeed.

Plunkett UK model rules: A set of rules written specifically for community benefit societies which, in addition to covering all aspects of CBS administration, also allow for withdrawable share capital and have suggested withdrawal restrictions. Plunkett UK rules are acceptable rules for tax relief purposes.

Seed Enterprise Investment Scheme (SEIS): Also known as Seed EIS, it offers tax benefits to individuals investing in small and early stage start-up businesses in the UK – see: <https://www.gov.uk/government/collections/investment-schemes-detailed-information>

Time-bound offer: A community share offer which is launched with a target investment amount and set time-scale, where if it is not successful, i.e. the necessary level of funds is not achieved by the set deadline, the money is returned to investors. It is possible to announce an extension to the time-scale.

Useful links

www.hmrc.gov.uk/eis/

www.communityshares.org.uk

www.plunkett.co.uk

About Plunkett UK

The Plunkett UK helps rural communities UK-wide to tackle the issues they face, through promoting and supporting community business.

Community businesses are enterprises that are owned and run democratically by members of the community and others, on behalf of the community. They come in many forms, including shops, pubs, woodlands and anything which lends itself to community ownership. In addition to developing and safeguarding valuable assets and services, community businesses address a range of issues including isolation, loneliness, wellbeing, work and training.

Plunkett UK's role is to advocate and champion the concept of community business to ensure communities throughout the UK are aware of the model and its potential; feel empowered to take action themselves; and operate in a supportive environment. Plunkett UK provides practical advice, support and training to help communities establish and run successful community businesses with long term survival rates.

Plunkett UK is proud of its roots; it was founded by the great Irish co-operative pioneer, Sir Horace Plunkett UK, in 1919. For almost 100 years, it has supported rural communities to thrive through community business and to improve the quality of life for all. Today, it represents the interests of over 600 rural community businesses that it has helped to establish and a further 400 in the process of setting up, as well as those who are just starting on the path.

Plunkett UK is a membership organisation, and we actively encourage those we work with to become members, and in turn, help us to make a difference to the lives of those living in rural communities.

Becoming a member of Plunkett UK makes a vital contribution to sustaining our service to help and support community businesses across the UK and, importantly, engages community businesses to help shape the development of our service as well as contribute to rural advocacy consultations.

Contact us

Plunkett UK member benefits include a range of support from receiving information, advice, networking opportunities, discounted services, events and being part of a wider movement. We have a number of membership packages available, starting at £75, so do contact us to talk through the best membership for your stage of the community business journey.

To find out more about Plunkett UK membership, email membership@plunkettuk.co.uk

Membership of Plunkett UK

Please contact the Community Business Team to request support on setting up or running your community business. We're always happy to hear from you!

Phone: +44 (0)1993 630022

Email: info@plunkettuk.co.uk

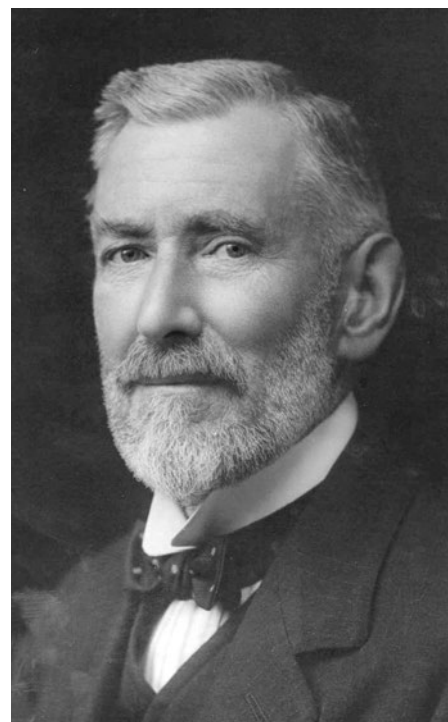
Address: Plunkett UK, The Quadrangle, Woodstock, Oxfordshire OX20 1LH, United Kingdom.

www.plunkett.co.uk

About Plunkett

Plunkett UK is a national charity which supports people in rural areas to set up and run a wide range of businesses in community ownership. We do this to achieve our UK-wide vision for resilient, thriving and inclusive rural communities. Community-owned businesses are owned and controlled by community members who have an equal and democratic say in how the business is run.

Plunkett has promoted the community ownership model for over 100 years because of its track record for delivering better businesses for people, communities, the economy, and the environment. Today, we represent 800 trading community-owned businesses and a further 500 in the process of setting up. Plunkett raises awareness of the community business model, provides practical community business support, and represents our members through networking, research and advocating with government, think tanks and funders.



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Plunkett UK is the operational name of Plunkett Foundation a registered charity, numbers CC 313743 (England and Wales) and SC 045932 (Scotland). It is a company limited by guarantee, registered number 00213235 (England and Wales).

