

Raising the funds to finance your community business



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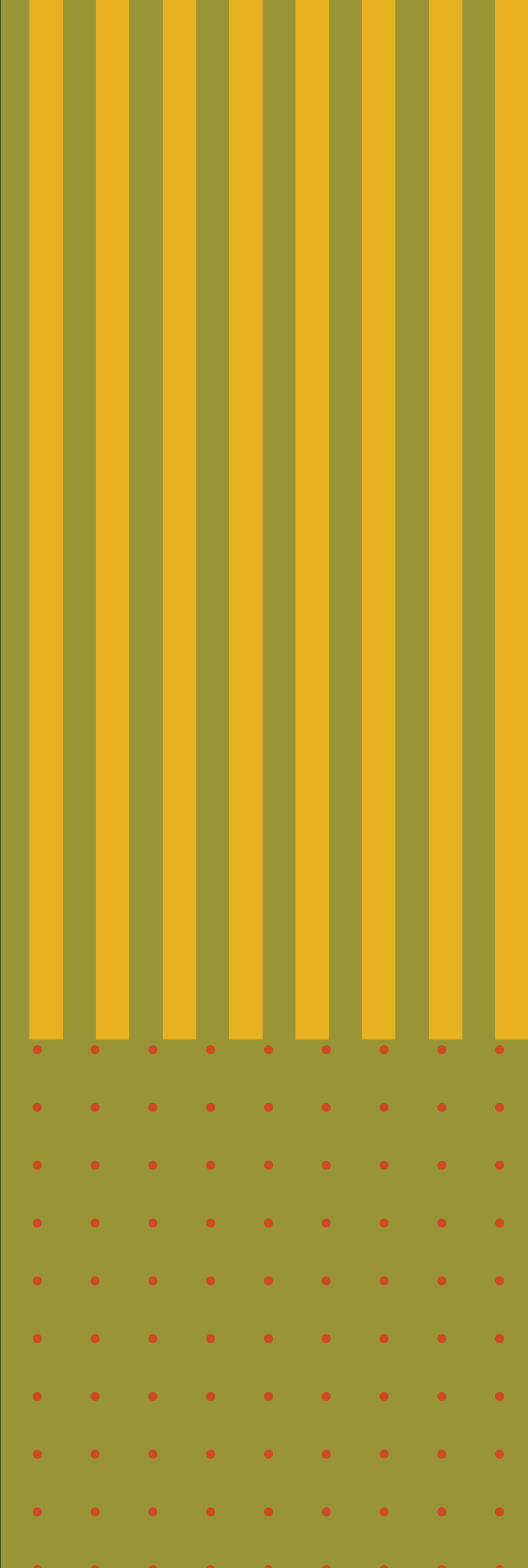
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Introduction

So, you have the idea, you have the people and you're ready to set up your community business. Now, all you need is the money!

If you have developed a viable idea for the business, you will now be in the planning stage. The importance of working up a business plan cannot be underestimated. It will need to be one of your first tasks, before you approach any number of organisations for support. Until your business plan is credible and presentable, you cannot issue a share offer, apply for significant grants or apply for commercial loans. For Plunkett resources on business plans, go to <https://plunkett.co.uk/essential-resources> where you will find our [Essential Guide to Preparing a Business Plan](#) resource on preparing a business plan, plus templates, further tools and examples.

At this stage you also need to be thinking about your legal structure and guidance on this can be also found in the resource section of the Plunkett website. The majority of community owned shops and community pubs use the Community Benefit Society (CBS) legal structure and Plunkett offers model rules for communities wishing to set up a business using this legal structure.

As soon as you start planning, you need to come up with a realistic assessment of the funding that your project is likely to require. This document is intended to help you create a funding plan, and to help you raise the funds to bring your project to fruition.



Overview of different types of funding

The main ways of raising capital for a community business are:

- Donations and fundraising events
- Grant funding
- Shares (equity)
- Loans (debt)
- Crowdfunding, which can raise shares or donations

This funding can be interdependent, for example:

- grants may require match funding which can come from shares or donations
- some funders will make matching investments and
- share issues can also be made in conjunction with a request for donations

Donations and fundraising

The first activity generally appears to be to request donations or by traditional fundraising methods.

This is 'free' money of course, and can often be raised successfully by creating a programme of events and ideas. It is worth bearing in mind, however, that it can require a large amount of time and effort to raise a relatively small amount of money.

Seeking funds through running village events or other types of community participation can bring much-needed support from the wider community. Individuals who might not wish to help with a share offer, or fill out grant applications, might be happy to organise village events such as discos, barbecues or a cake stall. Likewise, people in the community who may not wish to subscribe to shares, might be very happy to participate by making a donation or attending an event.

Informal fundraising events can start at the very earliest stages of a project and can be carried out while the business plan is being prepared. It can be a good way of raising pre-start capital, as well as raising awareness.



Advantages of donations

- **'Free' money.**
- **Inclusive** – everyone can give a little something.
- **Free from regulation** and paperwork.
- **Doesn't require business plan** to be completed; can help in the very early stages.
- It **spreads the word** in the community and can be used to generate wider publicity and opportunities for consultation.
- **Gift Aid may be available** through a linked charity.

Disadvantages of donations

- **Small amounts** raised at a time.
- **Donation fatigue** can set in if the project relies on too many events.
- Great deal of **forward planning** required.
- Takes **time and energy**.
- **Unpredictable results** and requires great imagination and enthusiasm.

CASE STUDY

FUNDRAISING PROGRAMME

Woodgreen Community Shop, Hampshire

Woodgreen in Hampshire (pop. 540) raised £350,000 for their new-build community shop, post office and café. They applied for, and received, a large Lottery grant along with other sources of funding (shares, other grants and a loan) – but a massive £120,000 was from donations and fundraising events alone. It took three years and was a fantastic achievement, and the fundraising was much enjoyed by everyone, plus it enhanced the community spirit.

<https://woodgreenshop.org/community/>

*Examples of some of their ideas
and approximate amount raised*

Open Gardens (in 2 villages)	£5,000
Open Village Day (gardens, studios, demonstrations, village history exhibitions, teas, ticketed BBQ)	£6,500
Raffle with cash prizes	£6,000
3 Garden Parties	£6,000
Village Variety Show (supper & entertainment)	£1,600
‘Frolics in the Field’ (live band and BBQ) x 2	£4,000
How to Wear Hats with supper (local hat-maker)	£1,000
Auction of Promises	£5,000
Sale of roof tiles, commemorative plaques and benches	1,000+ each

Other events included: Christmas draw, race nights, bingo, a dog show and a walking puzzle trail.

Can we offer Gift Aid to make the most of our donations?

The question of charitable status and Gift Aid comes up quite regularly. A Community Benefit Society that is trading will not be eligible for Gift Aid. It may, however, be possible to work with a local charitable organisation which might be interested in raising donations and then making a gift to the community business if their constitution allows.

For a community-owned business that has purely charitable purposes, it is possible to register an exempt Charitable Community Benefit Society with the FCA using model rules that can benefit from Gift Aid. For most charitable projects with an element of trading you would need to set up a wholly owned subsidiary. Contact Plunkett if you think you could be a charitable community owned business before deciding.

Every county has a Community Foundation (see the Community Foundations Network website on www.ukcommunityfoundations.org). These foundations act as umbrella organisations for a host of local charities and generally aim to inspire local giving to meet local needs. It may be worth approaching your Community Foundation for support and to see if it is possible to set up a fund.

Grants



Spend some time establishing how much you might be able to achieve in grants.

This depends on a lot of factors and it is best to make a conservative estimate, and to factor in a realistic time component. In some cases there will be an opportunity for applying for a very large grant – in which case a larger amount of concentration on this aspect of finance is worthwhile.

If possible one person needs to be allocated to this task, as it is good to have a cohesive approach to all grant applications. This person will need to be at the heart of the project as they will need to know every aspect of the potential business. They will also need to be very thorough, be an excellent writer and have an eye for detail. Grant applications have to be impeccable to have a chance of succeeding in a very competitive environment.

Advantages of grants

- **Very large grants** are occasionally available.
- Even small grants are **worthwhile**.
- Achieving grants gives **confidence** in the project.
- Grants attract a great deal of **publicity** and generate excitement.

Don't just rely on filling out a grant

application form: make sure you get to know the funder, create a dialogue, and really understand what they are looking for. Make face-to-face contact wherever possible.

Your grants 'portfolio' will probably be wide and vary from the smallest grant of a few hundred pounds from a local trust or your Parish Council, to hundreds of thousands of pounds from a major grant funder. The work will increase proportionately! Some grants will require a huge amount of work. It is worth persevering, especially if you have confirmation from the grant-funder that you are on the right track.

Disdvantages of grants

- **Time-consuming applications.**
- Grant money is **rarely given up-front** and the project then has to be bank-rolled.
- Grant money is given usually with very **specific conditions**, with little flexibility.
- Quotes etc have to be gathered well in advance of the project going ahead; there can be a lot of **chicken-and-egg** problems with planning etc.

Applying for grants: where do we start?

- Start with your Parish Council – is it prepared or able to use its financial powers?
- Contact your District Council for funding information
- Contact your county Rural Community Council (RCC) – they can be very helpful
- Look to see if your County Council has any grant streams that might be appropriate
- Research online for grants in your geographical area and sphere of interest; there will be grants specific to your type of business, and there may be local trusts that can help
- Check whether there are UK devolved nations, regional Mayoral or Community Right to Buy grants available in your area
- Check out the National Lottery programmes <https://www.tnlcommunityfund.org.uk/> and look at Power to Change www.powertochange.org and Better Society Capital <https://bettersocietycapital.com/about-us/> to see what support and funding programmes are currently available
- Look at crowdfunding sites to see whether there are any current match funding schemes
- Speak to Plunkett about current funding programmes
- Make a log of application dates and what will be required by each funder.

More information on Public Works Loans is available from www.nalc.gov.uk and www.dmo.gov.uk

Financial power of Parish Councils – giving grants

Funding via the Public Works Loan Board

One way in which a Parish Council can assist a community enterprise, is to apply to the Public Works Loan Board (PWLB) for a loan, at a very favourable interest rate and over a long term; repayments can be put on the parish precept.

Once acquired, the Public Works Loan (which comes from the National Loans Fund) can be given by the Parish Council to the community business in the form of a grant, if the Parish Council is not directly participating in ownership. The Parish Council has to be eligible and qualified to borrow and spend, which means that it has to have the General Power of Competence, as outlined in the 2011 Localism Act. A Parish Council wanting a loan should first contact their local body of NALC (National Association of Local Councils) who will look at the parish pro forma before applying for borrowing approval from MHCLG (Ministry of Housing, Communities and Local Government).

Once borrowing approval has been agreed the Parish Council can apply to the PWLB or any other lending institution, although most apply to the PWLB due to the low interest rates.

It is important to understand that this type of funding can be within the powers of a Parish Council to give as a grant and should be regarded as such in your funding plan.

Please note: If the Parish Council is not qualified or willing to borrow, it can still be of assistance to a new community enterprise within its parish. For example, it could supply some funding in the form of a small grant as pre-start capital. All new projects need some kind of fighting fund, for expenses such as setting up and registering a legal structure, printing literature, hiring venues for public meetings or for fund-raising events etc.

Shares



Assuming you have the appropriate legal structure in place (a Society), a good proportion of your funding can come from a community share offer.

This can be an extremely successful way of raising a large amount of capital relatively quickly (far more quickly than the grant process, or fundraising through village events, etc.).

Community investment empowers communities by giving members – as part-owners – a direct say in the success of a business, encouraging them to play an active part in its future. Your shareholders will become your customers, your volunteers, your staff, and your supporters.

‘Community shares’ is the term used for exempt, withdrawable, ordinary share capital which is unique to Co-operative and Community Benefit Society legislation. This type of share capital can only be issued by Co-operative Societies, Community Benefit Societies or Charitable Community Benefit Societies. Community shares differ from the usual transferable shares as offered by companies, including Community Interest Companies (CICs). When a share is withdrawable as opposed to transferable, it can only be withdrawn from the organisation in which it is invested. Plunkett UK recommend the Community Benefit Society for raising funds using community shares and has developed model rules for this purpose.

The attractiveness of the CBS model is that each shareholder has one vote, irrespective of the number of shares they have purchased. This **‘one-member-one-vote’** principle makes for a democratic structure and allow the community share offer to be inclusive to the wider community. Minimum share investment in a CBS could be as little as £1 and the statutory maximum shareholding by one individual (or company) in a CBS is £100,000 (although a society can invest an unlimited amount in another society).

However, we recommend that you set your own maximum investment in your share offer at an appropriate level to avoid any individuals having undue influence (despite the society structure being based on one-member-one-vote, it is not necessarily healthy to have any individual owning more than 10-20% of the shares). Controlling the maximum investment one person can make will also encourage a large membership and avoids future liquidity problems with large withdrawal requests or issues on the death of a shareholder member.

Advantages of shares

- **Speedy** way of raising capital
- Creates **community involvement**
- Very useful as **match funding**
- Creates **good publicity**
- **Democratic participation** at the heart of the project
- **Interest** can be offered on shares to retain the capital
- If Venture Capital Tax Relief can be offered on eligible investments, there is a **significant financial incentive** to buy shares.

Disadvantages of shares

- Administrative burden of keeping a share register
- Project becomes answerable to shareholders
- Paperwork has to be watertight
- The future business will require some liquidity for potential share withdrawals
Some members of the community might be uneasy about shares, and would prefer to donate
- Expectations of receiving interest may mean investors are disappointed if this turns out not to be possible
- Tax relief may encourage investment that might be for financial rather than social return.

How do we go about launching a community share offer?

- You will have set a target for share capital in your 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).

- To achieve that target, you need a good, concise and attractive share offer document – this does not need to be a weighty document because you can always refer to the business plan. Plunkett has many examples provided by communities who are prepared to share their documents. Don't be tempted to use AI to write your offer document as it must be compliant with the Community Shares Handbook. Community shares are exempt from both the Financial Services and Marketing Act and Money Laundering Regulations, so you can promote your offer to the general public and easily process payments for shares.
- As you are reaching out to your community, the share offer document needs to be easily digestible – there will be people investing in community shares who have never invested in shares and you therefore need to overcome any fears that they may have.
- There will be individuals in your community who will only wish to invest the minimum amount, e.g. one share, but there will be others who will be prepared to make significant investment – hundreds or even thousands of pounds. It is important not to make assumptions about who will and who will not invest in this way. **There are often some very surprising investors!**
- In the share offer document, it is important to stress the social return on such investment. People are using their spare capital to preserve or create a local amenity – something for future generations to enjoy – and it is worth explaining what a very worthwhile way of using money this is.

How do we create a share offer document?

- The share offer document needs to cover: how much you wish to raise, why you need to raise it, and by when, and the terms and conditions of the shares. It must explain the face value of the shares and the maximum limit per shareholder. See Plunkett's publication 'Funding a Community Business with Community Shares' which is available to Plunkett Community Business Member groups on the Member Hub.
- The CBS as a legal structure is not regulated by company law, and therefore self-regulation is imperative to protect the investor and the business. Make sure that you prepare your share offer with the assistance of an experienced advisor (Plunkett can assist with this).
- More information and explanations of best practice can be found on The Community Shares Unit's website:
<https://www.uk.coop/CommunityShares>
- Consider applying for the Community Shares Standard Mark which is awarded to community share offers that meet the Community Shares Unit's standards of best practice. For detailed information about the Community Shares Standard Mark, please refer to:
<http://communityshares.org.uk/standard-mark-0>.
- What sort of incentive (in addition to the social return) can there be for buying community shares, if they cannot increase in face value?
- You can offer interest on these shares, if the business is likely to be able to support it. But it is wise to emphasise that this sort of payment will be at the discretion of the Management Committee and will be reviewed annually.
- A very attractive incentive to invest in community shares is the potential for tax relief for the investor on eligible schemes
<https://www.gov.uk/guidance/venture-capital-schemes-tax-relief-for-investors>

What sort of incentive (in addition to the social return) can there be for buying community shares, if they cannot increase in face value?

- You can offer interest on these shares, if the business is likely to be able to support it – even an interest rate as low as 2% will attract investors, while bank rates remain low. But it is wise to emphasise that this sort of payment will be at the discretion of the Management Committee and will be reviewed annually.
- A very attractive incentive to invest in community shares is the potential for tax relief for the investor on eligible schemes
<https://www.gov.uk/guidance/venture-capital-schemes-tax-relief-for-investors>
- The social return must be emphasised, i.e. saving an essential service and benefitting the wider community.

CASE STUDY

Slindon Forge Community Shop and Café Project, West Sussex

To create a much-needed shop and café in the village of Slindon, an action group came up with plans to renovate a derelict Tudor forge. After community consultation showed widespread support the action group registered the CBS under Plunkett model rules, Forge Society Ltd and set about raising the £200,000 required.

A community share offer was launched, and the shares were set at a face value of £20 each. A total of £47,000 was raised from the purchase a 49-year lease from the owners, with 150 shareholders.

Several grants and a loan of £20,000 made up the balance and the building work to renovate and extend the Forge Slindon started in earnest, and the shop opened in October 2012. The action group also set up a community fund to benefit from Gift Aid.

www.slindonforge.co.uk

How do we protect ourselves from a large withdrawal of shares making the business vulnerable?

- There needs to be a tie-in period for share capital, to allow a business to get off the ground. Plunkett UK recommends a three-year tie-in, and if the society is intending to offer tax relief on shares then a three-year tie-in is mandatory.
- A good way of ensuring security for the business' finances and outlining the amount of liquidity that needs to be retained year on year, is to specify that only a certain percentage of share capital is withdrawable in any one year (Plunkett recommends that a figure of only 10% is repayable per year).

- Another protection which is written into the Plunkett rules is that all share withdrawals are entirely at the discretion of the Management Committee.
- These measures ensure the business has a chance of establishing itself; and at the end of the tie-in period, new shareholders can be sought to allow the earlier shareholders to withdraw their shares if necessary.

Tax relief on shares

There are various incentives for investment in community shares offered by HMRC. These include the Enterprise Allowance Scheme (EIS) and Seed EIS (SEIS). The tax relief offers either 30% or 50% relief to businesses that meet the trading criteria and is designed to encourage investment in new enterprises which carry an element of risk.

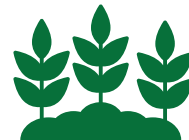
See <https://www.gov.uk/guidance/venture-capital-schemes-tax-relief-for-investors>

It is advisable to apply for advance assurance for tax relief before offering it to investors in community shares and you can do this through HMRC's Small Companies Enterprise Centre (SCEC). The Centre can be contacted on enterprisecentre@hmrc.gsi.gov.uk for more information or look on www.gov.uk for details of how to apply. *Plunkett UK is able to offer some general guidance about tax relief.*

Note: It is wise to put a disclaimer in your share offer document that the society is not able to advise members on tax issues and that it will be each investor's responsibility to make their own enquiries and to satisfy themselves as to their own eligibility to claim such tax relief.

If it is not possible to fund the business entirely by the methods above, then loans need to be considered.

Loans



Commercial loans will need a detailed business plan, and private loans (hopefully interest-free!) or bonds from local community members will need appropriate terms and conditions, and some legal protection.

There are a growing number of approved loan providers who lend exclusively to community owned enterprises and social enterprises. These specialist organisations have specific experience and understanding of this type of business and are able to offer additional support and advice including financial planning.

In comparison to high street banks, Community Development Finance Institutions (CDFIs) are more likely to look favourably upon a loan application from an appropriately incorporated community-owned business as they consider it to be a reliable business model. Plunkett works with CDFIs and can also assist with recommendations. For more information on CDFIs generally, see <http://responsiblefinance.org.uk/>

It may also be worth considering whether, in a village context, it would be preferable for freehold or lease ownership to be delegated to the Parish Council, with their greater powers to borrow (see box on Financial Powers of Parish Councils, in the section on Grants, above).

Advantages of loans

- Create clearly defined debt with a repayment plan, unlike shares.
- Business plan will have had a thorough vetting if a commercial loan is sought, which will provide a sound basis for the business.
- Demonstrate that the business is credit worthy.

Social Investment

Social investment is made by lenders with a social purpose which aims to achieve a social, as well as a financial return, on their funds.

Social investment often takes the form of a mixed loan, part grant and equity investment in shares. This results in a lender that is invested in the success of your community owned business that can advise, guide and support your business throughout its life cycle.

Whilst social investment loans are repayable, often lenders will be flexible and adaptable to meet the needs of your business as long as you are delivering the social impact you expect from your business.

For more information about social investment visit <https://bettersocietycapital.com/> and <https://access-socialinvestment.org.uk/>

Disadvantages of loans

- Commercial loans are likely to be inflexible.
- Large private loans or bonds from individuals in the community may give their opinions more influence, resulting in a less democratic set-up.
- Unlike share capital, loans have to be repaid according to a loan agreement.
- If loans are already in place, emergency loans are less likely to be agreed.

Crowdfunding



Crowdfunding allows the funding of a project or venture, usually by raising small amounts of money from a large number of people by using an online platform.

It can be a very useful way of raising start-up funds, which also test the idea of community support for a project.

There are now some crowdfunding sites that can manage and receive pledges for a targeted community share offer, e.g. www.crowdfunder.co.uk, and it is worth investigating match funding schemes available on these sites, either in the form of equity match on share capital raised, or matched against donations.

Advantages of crowdfunding

- No upfront fees.
- If the target amount is reached, payment is made in full.
- An easy way to collect pledges and draw down the funds.
- Crowdfunded projects can get a huge amount of attention on social media raising the marketing profile.
- Can be a fast way to raise funds.
- A successful crowdfunding campaign shows support to other funders.
- Can be a way of obtaining matched funds from grant givers.

Disadvantages of crowdfunding

- Depending on the set up, if the target isn't met, nothing is drawn down.
- A failed project can be hard to recover from if the project wants to re-start.
- Unlikely to attract much funding outside of your established network.
- Can be hard work drumming up support and requires good social media skills.
- There are fees and charges to pay.

About Plunkett UK

Plunkett is the UK's leading organisation supporting community ownership, representing almost 900 community-owned businesses across the UK – from village shops and pubs to community farms and woodlands.

Our vision is for thriving, inclusive and resilient rural communities. Its mission is to deliver better business for people, the economy and the environment.

Community businesses are owned and run democratically by members of the community and others, on behalf of the community. In addition to safeguarding valuable goods and services, community businesses have an impact through boosting the local economy, creating opportunities for employment, training and volunteering, tackling climate change, and promoting equity, diversity and inclusion.

Plunkett's role is to raise awareness of the model, provide practical business support, and strengthen the wider environment in which community businesses operate through membership, policy and research.

Plunkett is proud of its roots; it was founded by the great Irish co-operative pioneer, Sir Horace Plunkett, in 1919. For over 100 years, it has supported rural communities to thrive through community business and to improve the quality of life for all.

Membership

If you share our vision for a vibrant rural economy with community businesses at its heart, why not join Plunkett as a member?

www.plunkett.co.uk/become-a-member

Community business support

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!

01993 630022

info@plunkett.co.uk

Plunkett UK, Units 2-3, The Quadrangle, Banbury Road Woodstock OX20 1LH

Plunkett UK is the operating name of Plunkett Foundation, a company limited by guarantee (No:00213235) and charity registered in Scotland, England & Wales.

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