

# Community Investment

plunkett  
foundation

## Raising funds from your community

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## What is community investment?

**Community investment** is the process of raising inexpensive capital and mobilising a community behind a project whose purpose is for social and community benefit.

By harnessing the investment power of whole communities, potentially large amounts can be raised without the need for loans or reliance on grant-funding.

*NB: 'community' does not just refer to a geographical group of people, it can also refer to a community of shared interests, shared values and shared identity*

## Why does the legal structure matter?

**The IPS is the only legal structure that can issue shares inexpensively.**

A **CIC Limited by Shares** may raise share capital, but a community share issue using a CIC would be expensive (CICs do not benefit from the exemptions from regulation which IPSs do).

A **Company Limited by Guarantee (CLG)** cannot issue shares (but can issue bonds). A bond is a form of loan - a legal agreement, usually stating the amount of interest to be paid and when the loan will be repaid in full.

A **Charity** can issue bonds, but cannot issue share capital. (Charities issuing bonds and other forms of debt, are, like IPSs, exempt from regulation under the Financial Services and Markets Act.)

# IPS – Community Benefit Society

## **Industrial & Provident Society for the Benefit of the Community** (often abbreviated to IPS bencom)

### a.k.a. **Community Benefit Society**

- IPSs are registered and regulated by the Financial Services Authority.
- They are corporate bodies with limited liability status, but otherwise they are significantly different from companies
- Four unique attributes which make them highly effective for community investment:
  - **Shareholder democracy**
  - **Withdrawable share capital**
  - **Limits on shareholdings**
  - **Limit on share interest**

# What are the advantages of withdrawable shares?

**Withdrawable share capital** is a type of share capital **unique** to IPS

- **Members are allowed to withdraw their share capital subject to terms and conditions set out in the society's rules.**
- The value of the shares cannot increase (although it can decrease in the event of the business failing)
- Exempt from regulation by the Financial Services and Markets Act.
- Exemptions from regulations covering the approval of financial promotions and compliance with the Money Laundering Regulations 2007.
- These exemptions make it far cheaper to use IPS legislation rather than company legislation.

**Transferable shares** cannot be withdrawn from a society; instead the member must find a willing buyer, at a price acceptable to both parties.

## What are Plunkett's Model Rules?

**65% of communities establishing shops use Plunkett's Model Rules for the IPS structure, because:**

- They provide a template legal structure
- FSA approved and registered with Companies House
- Democratic: one member, one vote – supports funding applications
- Bespoke for the needs of community shops
- Allows for community investment, with protective rules
- Profit reinvested into the shop or community purpose
- Compliant with up to date legislation and include automatic updates
  
- *Cost of purchasing rules: £475 without any amendments*

# What is the process?

1. **Contact the Plunkett Foundation to register for advice**
2. **Register as a free user of the online Community Shop Network**
  - Advice Sheets
  - Resources
  - Forum
3. **Visit other community shops to learn from their experience and to explore ideas. This helps with your fundraising objective**
4. **Set up a working party within the village to explore the demand, interest and commitment from the community**
5. **Consult with whole community via a questionnaire. Ask whether they would contribute financially**
6. **Establish location or premises, and check the relevant permissions**
7. **Establish HOW MUCH you need to raise, and BY WHEN**

## The process continued....

8. Form a steering group with officers – chair, treasurer, sec
9. Select a suitable legal structure (for community shares, the IPS)
10. Register the Society
11. Develop a Business Plan
12. Open a bank account
13. Fundraise within the village, apply for grants and loans and launch the **share issue**.

**Help is available on all of these stages. There are also advice sheets and templates available on the online network at [www.plunkett.uk.net](http://www.plunkett.uk.net) or contact Donna or James at the Plunkett Foundation on 01993 810730**

## What literature is needed for the share issue?

- **Share offer document** plus **Governing document** (or Prospectus) - you can combine the two onto one document
- **Business plan** – should be available on request
- If written pledges are planned, then **pledge forms** followed by pledge chase-ups
- **Share application forms**
- Share register
- **Share certificates**

We can provide:

- **Examples** of these documents, from other communities
- **FAQ** sheet for investors

Other important sources:

- Community Shares Programme literature (*Investing in Community Shares, Practitioners Guide* – see [www.communityshares.org.coop](http://www.communityshares.org.coop))

## What regulations need to be adhered to?

IPSSs still have little regulation

Stringent self-regulation is required

Share offer documents must emphasise three things:

- 1. You may lose your money**
- 2. There is no regulation to protect you**
- 3. You have no right of recourse**

Emphasise:

- one member - one vote
- statutory £20,000 limit on individual share ownership
- your restrictions on withdrawals

## Details for discussion

- Is it worth seeking pledges first?
- The potential for targeting a “rich list”
- “Timed” share offers vs “open” offers
- “Pioneer” shares (for seedcorn capital)
- Minimum shareholding - £10, or more?
- Lower income groups – shares by instalments?
- Charging membership fees (subscriptions)
- Seeking investment from companies
- Paying interest – should it be mentioned?
- Tax relief on shares via the Enterprise Investment Scheme (EIS) – on shareholding above £500

## RECENT EXAMPLES

- Gawsorth, Cheshire, raised £52k
- Hinton St George, Somerset £140k
- Dunsfold, Surrey £208k
- Hurst Green, E Sussex, £22k
- St Tudy, Cornwall, £36k

All of these set their share price at £10 each  
*Their documents are available to view.*

## In a nutshell...

### COMMUNITY SHARES are:

- Withdrawable, not transferable
- Min £1, max £20,000
- Static in value
- Interest is payable (committee's choice)
- UNIQUE to the IPS legal structure
- **One member, one vote** no matter how much the shareholding
- Tie-in times are acceptable, as are limits on repayments

Contact...

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