Community Shares

What are community shares?

There is no legal definition of community shares. The term is used here to refer to a unique form of share capital called ‘withdrawable shares’ which can only be issued by co-operatives or community benefit societies registered with the Financial Conduct Authority (FCA). Co-operative societies are for the mutual benefit of their members, whereas community benefit societies are for the broader benefit of the whole community. Both types of society can issue withdrawable shares, and they work to similar principles. A withdrawable share can be withdrawn from investment, subject to the terms and conditions of the society concerned. This provides a straight forward way of getting your money back when you want to cash-in your shares. Withdrawable shares are very different from ‘transferable shares’, which are the type of shares normally issued by companies. To cash-in transferable shares you must first find a buyer to whom you can ‘transfer’ (i.e. sell) your shares, at an agreed price. Shares in larger companies are bought and sold through stock markets, but these markets do not cater for smaller companies where there are very few buyers or sellers. Finding someone willing to buy shares in a small venture can be very difficult. Co-operative and community benefit societies can issue transferable shares, or shares that are both withdrawable and transferable

What are the benefits of community shares for enterprises?

Community shares can potentially offer a number of benefits to community enterprises seeking to raise start-up finance.

Capital: Community shares offers can provide long-term risk capital linked to the performance of the society

Leverage: Community share offers can lever further funding based on the ‘first move’ of the community

Governance: Community shares can give members meaningful involvement in the running of the society

Operation: Community share offers can ‘bake in’ the customer base and promote member involvement in the operation of the enterprise

What are the risks of community shares?

The sale of community shares is not regulated by the Financial Conduct Authority, because investors are deemed to be investing for social returns, not financial gain. This is good news for community ventures, which would otherwise face prohibitively expensive regulations when marketing community shares. But it comes at a cost to community investors, who have no right of complaint to the Financial Ombudsman Service and cannot apply to the Financial Services Compensation Scheme.

Community shares are far more risky than keeping your money in a savings account with a bank or building society, where currently the first £75,000 is fully protected. You can lose everything you invest in a community shares offer. This is why it is important to look carefully at a community share offer before deciding to invest.

What return can I expect from my community shares?
You may be offered a financial return on your investment, together with the scope to cash-in your shares at some point in the future. Some enterprises state in their share offer document how much interest will be paid on shares, This is a generally a target return per year listed as a percentage of your share capital. The prospectus will also tell you if there are any other conditions surrounding your share capital and returns, as well as any ability to claim Enterprise Investment Scheme (EIS), Seed Enterprise Investment Scheme (SEIS) or Social Investment Tax Relief (SITR).
However, you should be aware that, unlike companies, there are legal limits to financial returns on shares in co-operative and community benefit societies. Also, unlike company shares,co-operative and community benefit society shares cannot go up in value but they can go down, meaning that you could lose some or all of the money you invest.

What's the difference between a co-operative and a community benefit society?

A co-operative society is run for the mutual benefit of members who use its services. This is based upon the common economic, social and cultural needs or interests of the members. Typically, the common need or interest will define their relationship with the co-operative as a service user, customer, employee or supplier. A co-operative society has open membership; there should be no artificial restrictions on membership, and membership should be open to anyone who meets the criteria. Recent guidance from the FCA says that a co-operative society can have investor-members who are not otherwise users of the society's services. A co-operative society can pay interest on member share capital and a share of the surplus, or dividend, based on the level of transactions (customer-purchases, supplier-sales or employee-wages) with the society.

A community benefit society is run primarily for the benefit of the community at large, rather than just for members of the society. This means that it must have an overarching community purpose that reaches beyond its membership. An applicant enterprise must also have a special reason for being a community benefit society rather than a company, such as wanting to have democratic decision-making built into its structure. Although a community benefit society has the power to pay interest on members' share capital, it cannot distribute surpluses to members in the form of dividends. A community benefit society can opt to have a statutory asset lock, which has the same strength as the asset lock for a charity and for a community interest company. This type of asset lock is not currently available for co-operatives.

What's the difference between an ordinary or transferable share and a community share?

Community shares refers to a distinct type of share capital called Withdrawable Shares which behave differently to conventional share capital, also known as ordinary or transferable shares. Each form is set out below:

Transferable Shares
Most companies use a form of share capital known as transferable or ordinary shares, which can be transferred or sold by shareholders to a third party at a mutually agreed price based on their personal valuations. Investors buy shares in the expectation of two types of financial return: a regular dividend on shares, and the possibility of capital appreciation, in which case they would expect to sell the shares at a higher price than they paid for them.

If these shareholders want to cash in their shares, they will usually find a buyer who will purchase all the shares in the company. Larger companies that decide to go public will normally be listed on a stock market, which provides a mechanism for buying and selling shares. Market forces and speculation on the future value of those shares determine share prices.

Withdrawable Shares
Withdrawable share capital is completely different. This type of share capital cannot be transferred between people. Instead, the society allows shareholders to withdraw their share capital, subject to terms and conditions that protect the society's financial security. This means that a shareholder can cash in their shares with relative ease. Shareholders have a share account, and can increase or decrease their shareholding, or close the account altogether by withdrawing all their share capital. The value of shares is fixed and not subject to speculation, although some societies have the power to reduce share values if the society is experiencing financial difficulties.

Shareholders have only one vote, regardless of the size of their shareholding, so the society is democratic. There is a limit on personal shareholdings, currently up to £100,000 (20,000 in Northern Ireland), and there is also a limit on the interest paid on share capital, based on the principle that interest should be no more than is sufficient to attract and retain the investment. Community benefit societies can adopt a statutory asset lock, which prevents the society being sold and the proceeds of the sale being distributed amongst shareholders. This removes the possibility of capital appreciation and the scope for investor speculation.

Why should I buy community shares?
The main reason for buying community shares is to support the social aims of the venture concerned. Unlike shares in private companies, where personal financial gain is the main motive, community shares are subject to laws that limit financial gain and emphasise social benefit. The following are all possible reasons for purchasing community shares:

You want to do something good for the community in which you live or work
You want to be part of a democratic organisation
You want to have more control over where money you goes and how it is used to
You are looking for alternative options for how you use your money

http://communityshares.org.uk/find-out-more/what-are-community-shares