

# Community Ownership Fund

## Maximising impact through Community Shares

March 2021

### Key points:

- Community Shares are a proven way to deliver outcomes in line with government's priorities for the Community Ownership Fund: financial sustainability, resilience, levelling-up and local participation.
- Communities engaging with the Community Ownership Fund should be encouraged explore Community Shares as a matter of course. And the Community Ownership Fund should operate in a way that supports use the model where appropriate.
- While Community Shares is not appropriate for every asset and may not be a feasible option in every community, we have great confidence that Community Shares could be an appropriate part of the funding mix for a significant proportion of Community Ownership Fund applicants.
- The Community Ownership Fund should offer both match grants and match equity investments using Community Shares as the instrument.
- To facilitate match equity investments, and to create a lasting legacy with significant public value, a portion of the Community Ownership Fund could be used to help capitalise a dedicated institutional investor in the Community Shares market, as a successor to our existing Community Shares Booster programme.
- The feasibility study and capacity building strands of the Community Ownership Fund need to include information, advice and support relating to Community Shares.
- The objectives of the Community Ownership Fund would be well-served by supporting the further development of Community Shares Standards.

## 1 Introduction

- 1.1 We are excited that government has confirmed its intentions to launch the Community Ownership Fund (COF). As a key stakeholder in community ownership and the Community Shares financing model, Co-operatives UK is eager to help MHCLG define the specifics of the COF, between now and the publication of the prospectus in June 2021.
- 1.2 Given that the COF will mainly be used to help communities buy assets through match funding, considerations about which financing models to utilise and combine with are important. That said, we are pleased that government has also confirmed that some of the COF will be used for feasibility studies and capability building, as in our experience this is critical to the successful use of Community Shares and community ownership more generally.
- 1.3 To maximise impact, we suggest the COF should be designed to take advantage of the social and financial leverage of Community Shares, wherever use of this model is appropriate and feasible. **This paper focuses on why and how the COF can utilise the Community Shares financing model.**
- 1.4 However, we acknowledge there are other important considerations. Alongside partner organisations working in community ownership (Locality, Plunkett, Power to Change), we stress the following points:
- A **flexible match** approach is required, wherein more disadvantaged communities can receive more than 50 per cent match
  - A **sequencing** approach is required that allows communities to secure a COF investment/grant in principle and then use this as leverage to attract/raise other funding
  - A **combination of revenue funding alongside capital funding** is required to help improve the efficacy and sustainability of community businesses taking over assets
  - More **flexibility on grant caps** is required, with more types of asset (in addition to sports facilities) able to attract amounts above the suggested £250,000 cap
- 1.5 This paper is structured as follows:
- In **part 2** we provide an overview of the evidence on Community Shares, its economic and social benefits and new data on the success of the model
  - In **part 3** we discuss the factors that determine when it is appropriate and/or feasible to include Community Shares in the funding mix
  - In **part 4** we discuss the two main options for combining the COF with Community Shares: match equity investments and match grants; and we set out how a COF Community Shares Booster programme could operate, as a successor to our existing Booster programme

- In **part 5** we suggest how the COF could add value by supporting communities to use Community Shares effectively
- In **part 6** we discuss the role Co-operatives UK could play as a delivery partner

## 2 Community Shares: a social investment success story

- 2.1 Community Shares are a proven way to deliver outcomes in line with government's priorities for the COF: financial sustainability, resilience, levelling-up and local participation.<sup>1</sup>
- 2.2 The model is a standout success story in UK social investment. Since 2012, £155 million has been raised by 104,203 people supporting more than 440 vital community businesses – an impressive 92 percent of which are still trading.<sup>2</sup>
- 2.3 Community Shares provides community businesses with low cost, mission-aligned equity, usually crowdfunded from local people. The model is instrumental in enabling communities to acquire ownership of assets and enterprise. The model has been especially used for to the acquisition of privately owned assets. Community Shares is special in how it facilitates direct and democratic community ownership, in which local people have a real stake and a say.
- 2.4 Community Shares uses a form of equity unique to co-operative and community benefit societies (hereafter referred to collectively as 'societies'),<sup>3</sup> called non-transferable withdrawable share capital.<sup>4</sup> Both the society corporate form and the share capital have features that are particularly well-suited to patient, mission-aligned investment in community business.
- 2.5 Our latest primary research (*'Understanding a maturing community shares market'*), along with insights from a decade of working in this field, tells us that the distinctive benefits of Community Shares in community ownership are as follows:
- Community Shares introduces an important degree of **commercial rigor**,<sup>5</sup> **financial sustainability** and **resilience** to community ownership
    - 92 per cent of businesses that have used Community Shares are still trading today<sup>6</sup>
    - 85 per cent of surveyed businesses said that using Community Shares has had a positive impact on financial performance<sup>7</sup>
  - Community Shares creates a **direct and democratic** form of community ownership, in which **local people have a real stake and a say**. Because local people have invested in, and are part owners of, the asset/enterprise, they stay engaged and have a much greater stake in its success<sup>8</sup>
  - Having **equity** instead of, or alongside, grants and loans, reduces debt liabilities and grant restrictions, which creates a sound basis for commercial independence, self-sufficiency and resilience

- Community Shares is very effective at **leveraging in other private and charitable funding**, with every £1 invested in Community Shares, an additional £1.18 is leveraged through grants, loans and institutional investment.<sup>9</sup>
- **Community Shares help more people across the UK have a stake and a say in their local economy** – Over 104,000 people now have a stake and a say in 440 businesses. 56 per cent of Community Shares investors earn £35,000 or less and only 18 per cent are in London and the South East (compared with 80 per cent of angel investors). Furthermore, 41 per cent of Community Shares investors are women (compared to just 9 percent of angel investors).<sup>10</sup>
- **Community Shares have significant potential to reduce inequalities, build local wealth and ‘level up’ society** – Half of businesses raising Community Shares are found in higher deprivation neighbourhoods (1-5 IMD decile) but 70 per cent of investors live in lower deprivation neighbourhoods (6-10 IMD decile), usually in the wider locality. And because Community Shares are an *investment*, people put in almost ten times more than they tend to when donating. Furthermore, 80 per cent of people invest in Community Shares because of the wider social or environmental benefits, alongside a modest financial return. So more profits are reinvested in businesses with social purpose and more money circulates within local economies.<sup>11</sup>
- The unique way in which Community Shares **simultaneously mobilises financial capital and social capital within a community** also enhances the viability, impact, efficacy and sustainability of the investee organisation <sup>12 13</sup>

2.6 These benefits have been recognised time and again, not least by government in the 2018 Civil Society Strategy <sup>14</sup> and the 2016 Social Investment Strategy.<sup>15</sup>

### 3 Scope for utilising Community Shares

3.1 Community Shares is not appropriate for every asset and may not be a feasible option in every community. Two major factors determine whether it is likely to be appropriate and/or feasible to include Community Shares in the funding mix:

- **Whether the asset will be used in one or more revenue generating social business models**
- **Whether the beneficiary (e.g. local) community has enough capacity to invest**

#### Revenue generation

3.2 Community Shares work best when an asset will be used in one or more revenue generating social business models. The range of social business models that have proven compatible with Community Shares is as varied as economy activity in general. This includes rental income, leasing, all manner of trades and service provision, and combinations of multiple income streams.

3.3 Almost all of the asset types on the indicative list for COF eligibility, are already successfully used in combination with Community Shares. This gives us great confidence that Community Shares could be an appropriate part of the funding mix for a significant proportion of COF beneficiaries.

Community investment potential

3.4 Community Shares is only a viable option when there is at least some capacity within the beneficiary (e.g. local) community to invest savings, at full risk, in a community businesses. Our latest research <sup>16</sup> demonstrates that:

- The model is very effective at allowing wealthier members of the community (including those from a wider geographical area) and supporters from elsewhere, to invest alongside poorer members of the community
- Blended funding arrangements (e.g. grants, loans and Community Shares) and institutional investment (any organisation investing in Community Shares on the same terms as the community, for example the Community Shares Booster programme) offer a way to augment the investment capacity of disadvantaged communities

3.5 Crucially, our researchers concluded that: *“Institutional investment increases the investment potential for more disadvantaged communities, enabling them to reach their targets and kick-start their projects.”* <sup>17</sup> We are very confident that in providing match funding alongside communities, the COF will be a tool for enabling more marginalised and/or disadvantaged communities to use Community Shares.

## 4 Options for utilising Community Shares

4.1 The COF should not operate in a way that pushes organisations to use Community Shares when it is not appropriate. But given that Community Shares are a proven way to deliver outcomes in line with government’s priorities for the COF (financial sustainability, resilience, levelling-up and local participation), <sup>18</sup> **it should be a clear policy intention that communities engaging with the COF are encouraged explore Community Shares as a matter of course**. And the COF should operate in a way that supports use the model where appropriate.

4.2 Firstly, it is essential that the COF Prospectus:

- informs communities considering applications about the benefits of Community Shares, and by extension what is involved in taking a co-operative approach to community investment and ownership
- signposts communities to more information and expert support relating to Community Shares

4.3 In our view, there are two broad ways for COF match funding to combine with Community Shares:

- a COF **match grant**, in combination with funding raised by the community that includes community shares
- a COF **match equity investment**, wherein COF money is invested alongside the community, with Community Shares as the instrument

4.4 In our view **the COF should offer both match grants and match investments.**

Match grants

- 4.5 Offering match grants would be straightforward for the COF administrators. However, grants can be restrictive and burdensome for beneficiary organisations and great care should be taken to limit this wherever possible.
- 4.6 The emphasis government intends to place on ensuring sustainability in community ownership, should in itself mean that Community Shares will often be part of the funding mix for communities. But this will be more likely if the COF Prospectus is effective in informing communities about Community Shares as an option.
- 4.7 Points stressed in 1.4 (flexible match, sequencing etc.) are especially relevant to the design of match grants.

Match investments

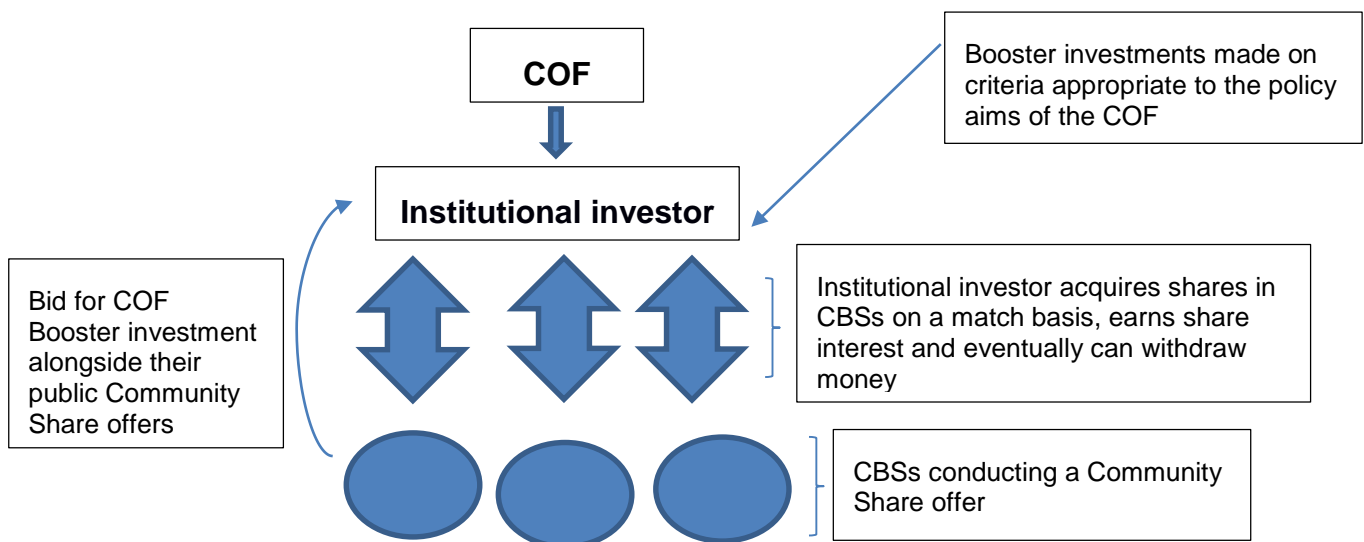
- 4.8 Receiving match funding in the form of Community Shares will be simple and liberating for beneficiary organisations that are already using Community Shares to raise private funds. Crucially, receiving match funding in the form of an equity investment provides greater flexibility for community organisation as they balance the allocation of funds between asset purchase, capital improvements and working capital to develop the business.
- 4.9 Offering match investments in Community Shares has the added advantage of directly reinforcing the use of a financing model that is proven to deliver outcomes in line with government's priorities for the COF.
- 4.10 Furthermore, using some of the COF to make investments that generate a return, potentially to be reinvested in other community ownership projects, creates longer term value, impact and legacy.

COF Community Shares Booster

- 4.11 There would be significant economic and social returns for the tax payer (i.e. 'public value'<sup>19</sup>) in utilising Community Shares as a match investment instrument, building on the success of our £3.75 million Community Shares Booster Programme.<sup>20</sup>
- 4.12 We suggest that a portion of the COF be used to help capitalise a dedicated institutional investor in the Community Shares market. This institutional investor would then use COF money to make match investments in community benefit societies issuing Community Shares, using criteria appropriate to the policy aims of the COF.
- 4.13 The institutional investor would become an investor-member in these community benefit societies, with holdings in their withdrawable share capital. In a continuation of activity in

the existing Community Shares Booster Programme, the institutional investor would act as an ‘active investor’, monitoring the health of investments and investee societies and providing help as and when required.

- 4.14 Over time the institutional investor will earn a return on these investments in the form of interest paid by the investee societies. Interest targeted and paid on Community Shares is always limited to no more that is necessary to attract and retain capital, and to date has usually been between 2 and 5 per cent a year.<sup>21</sup> We suggest that this interest must be retained within the institutional investor to cover ongoing running costs, which include the costs of being an ‘active investor’.
- 4.15 Over time the financial position of investee societies will allow share capital to be withdrawn by the institutional investor, up to par value. Societies will only allow withdrawal of capital on a gradual basis, with significant restrictions on how much can be withdrawn in a given year. We suggest that any withdrawn capital must be retained within the institutional investor, primarily to be recycled back into investments in community businesses, but also to provide additional cover for operating costs when required.
- 4.16 Below we sketch out a possible arrangement visually:



- 4.17 Over time this will create a self-sustaining institutional investor committed to providing patient, mission-aligned equity for community ownership. This legacy will extend and amplify the impact of the COF far beyond the initial outlay. To put it another way, the ‘public value’<sup>22</sup> in this legacy would far exceed the initial outlay of public money.
- 4.18 **We believe the best option for government would be to grant a portion of the COF to Co-operatives UK, to create a new, enlarged and UK-wide institutional investor, which would be a successor to our existing £3.75 million Community Shares Booster programme.**
- 4.19 In summary, the case for this is as follows:
- We are already running a successful £3.75 million match investment programme and have the processes, expertise and relationships in place to deliver

immediately

- Scaling up/building on our existing £3.75 million Booster programme will deliver greater value and impact over the long term
- As a UK-wide organisation, we can make match investments anywhere in the UK
- As a registered society, we are able to hold more than £100,000 in the withdrawable share capital of other co-operative and community benefit societies, whereas any institutional investor that is not a society is limited to match investments of £100,000 or less <sup>23</sup>

4.20 Modelling for a conservative projection of Community Shares growth suggests a permanent new Community Shares Institutional Investor needs a seed capital injection of at least £6 million. Scenarios in which the Community Shares market grows more substantially require a £20 million capital injection. **All modelling is based on this new Community Shares Institutional Investor being a successor to the existing Community Shares Booster Programme and building on its initial £3.75 million investment.**

4.21 **A one off capital injection of £20 million in public money now would likely result in circa £87.2 million of new investment flowing into community ownership over the medium term.** See the table below for more details.

Outputs	Social and economic value-added
<p>£40 million (£20 million COF money matched with £20 million private) invested in c.430 Community Share offers over the medium term</p> <p>Leveraging an additional £47.2 million in other private and charitable funding (based on evidence that every £1 of Community Shares leverages £1.18 of other investment)</p> <p>Leading to c.£87.2 million in new investment in community owned assets and enterprise</p> <p>With every £1 of public money injected at the outset resulting in £4.36 invested overall</p>	<p>Greater use of Community Shares to bring about community ownership, including in more deprived places</p> <p>Increase in community ownership that is privately funded, with greater allocation of private capital to social investment and to deprived places</p> <p>Increased degree of commercial rigor and self-sustainability in community ownership, including in deprived places, delivering greater community benefit for every pound of private and public money spent</p> <p>Social capital in communities simultaneously mobilised alongside financial capital, including in deprived places, delivering greater community benefit for every pound of private and public money spent</p>
<p>Greater share of direct, democratic ownership of assets and enterprise, including in deprived places</p>	<p>Economic empowerment in deprived places, helping these communities take more control</p> <p>More revenue recycled back into local economies in</p>



	deprived places, helping to revitalise and 'level up' places
Money earning a return on investment, via interest paid of 2 to 5 per cent a year and eventual withdrawal of money invested up to par value, to be recycled into further community investment	Over the medium term, institutional investment in Community Shares becomes a steadily growing and self-sustaining activity, meeting its own fixed and variable operating costs, while recycling public money back into providing further patient, mission-aligned equity for community businesses

## 5 Supporting communities to use Community Shares effectively

- 5.1 We are encouraged that government intends for some of the COF to be used for feasibility studies and capability building.
- 5.2 Within this, the COF needs to support communities to use Community Shares effectively. We suggest the COF should offer community organisations the following:
- Access to information and advice about the Community Shares model during the exploratory phase
  - Grant support to help organisations become 'Community Shares ready' and to conduct a share offer in line with national standards of best practice, with an award of the Community Shares Standard Mark by a Licensed Community Shares Practitioner
  - Ongoing access to specialised business support covering co-operative and community finance, governance and business development
- 5.3 In Scotland and Wales there are already successful nationally-funded programmes that help communities understand and use the Community Shares model. This is not the case in England and Northern Ireland. Though in England, grant funding by Power to Change through the Community Shares Booster Programme has provided some development funding for community share offers. **But this funding is due to end in June 2021.**
- 5.4 Communities across the UK need accessible and often culturally attuned advice and support to help them understand Community Shares. For example, Co-operatives UK is working with The Connect Fund and Amanah Advisers to explore the potential for Community Share offers to be recognized as Shariah compliant. Such work will be critical to ensuring the COF benefits a diversity of communities, but needs resourcing.
- 5.5 **We urge that government makes provision in the COF for applicants across the UK, including in Northern Ireland and England, to receive the information and support they need to understand and use Community Shares effectively.**
- Community Shares Standards Project
- 5.6 There would also be considerable public value in funding a project to establish

Community Shares Standards (sector-led self-regulation) on a self-sustaining basis. Since 2012 the Community Shares Unit has facilitated the sector-led development of a standards and accreditation framework, with the Community Shares Handbook, Standards Mark and related practitioner training and accreditation.<sup>24 25 26</sup> This system of self-regulation is becoming a key part of the institutional infrastructure for Community Shares, with the number of share offers carrying the mark rising from 19 per cent in 2015 to 70 percent in 2020.<sup>27</sup>

- 5.7 The foundations for this progress were laid between 2012 and 2015 when DCLG provided funding for the Community Shares Unit.<sup>28</sup> Since 2015 funding for this work has been less comprehensive. Power to Change and the Architectural Heritage Fund have both helped to fund this work as part of their support for Community Shares Booster. While the Community Shares Standards framework is very effective and highly valued, it is not currently operating on a self-sustaining basis.

## **6 The role of Co-operatives UK as a delivery partner**

- 6.1 If the COF is to be impactful, it will need to involve a small group of delivery partners who can:
- help to encourage and manage a pipeline of high-quality applicants
  - provide the specialist accompanying support COF beneficiaries will need to make a success of community ownership
- 6.2 Co-operatives UK would be uniquely well-placed to be a delivery partner for the following:
- a COF Community Shares Booster – with Co-operatives UK given a capital grant to create a new, enlarged, UK-wide successor to our existing Community Shares Booster programme
  - any accompanying support for communities to use Communities Shares effectively (in England - other specialist organisations either already are, or are better placed to, deliver accompanying support elsewhere in the UK)
  - any COF Prospectus and related information relating to Community Shares
- 6.3 Crucially for the COF, Co-operatives UK is a UK-wide organisation, able to make match investments and, where needed, deliver advice and support, anywhere in the UK. We also have strong relationships/partnerships with key sectorial organisations, specialists and community organisations in every UK nation, including Community Shares Scotland (Development trusts Association Scotland), Wales Co-operative Centre (Community Shares Wales) and Co-operative Alternatives in Northern Ireland.

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## Co-operatives UK

### References

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<sup>1</sup> Co-operatives UK (2020) '[Understanding a maturing community shares market](#)'

<sup>2</sup> Ibid

<sup>3</sup> Co-operative and community benefit societies are bodies corporate, registered under the Co-operative and Community Benefit Societies Act (whereas companies are incorporated under the Companies Act). The registrar of co-operative and community benefit societies is the Financial Conduct Authority (not Companies House). Useful summaries of the co-operative and community benefit society legal forms are found [here](#).

<sup>4</sup> Withdrawable shares have some distinct features: Shares can be withdrawn by the investor, up to par value, subject to restrictions set by the society, which include: fixed terms blocks on withdrawal; limiting withdrawal amounts in a given year; the right to partially or totally suspend withdrawals if the financial position of the business requires it. Withdrawable share capital does not pay a dividend on profits but instead pays interest, which societies must limit to no more than is required to obtain and retain capital (usually between 2 and 5 per cent a year), the payment of interest and the amounts paid are always at the discretion of the society and subject to its financial position. By law, an investor cannot hold more than £100,000 in the withdrawable share capital of a society, unless that investor is itself a society.

<sup>5</sup> Community Shares requires a viable revenue generation model, to build up surpluses to pay interest on share capital and over time to repay share capital. Societies issuing Community Shares must have a viable business plan based on sound market analysis and financial projections. The Community Shares Standards Mark is only awarded to share offers that incorporate credible business plans.

<sup>6</sup> Co-operatives UK (2020) '[Understanding a maturing community shares market](#)'

<sup>7</sup> Ibid

<sup>8</sup> Ibid

<sup>9</sup> Ibid

<sup>10</sup> Ibid

<sup>11</sup> Ibid

<sup>12</sup> Ibid

<sup>13</sup> In 2019 Nesta published some useful research on the financial and non-financial benefits of 'crowdfunding community investment', which focused heavily on Community Shares: '[Taking Ownership: Community empowerment through crowdfunded investment](#)'

<sup>14</sup> <https://www.gov.uk/government/publications/civil-society-strategy-building-a-future-that-works-for-everyone>

<sup>15</sup> <https://www.gov.uk/government/publications/social-investment-a-force-for-social-change-uk-strategy-2016>

<sup>16</sup> Co-operatives UK (2020) '[Understanding a maturing community shares market](#)'

<sup>17</sup> Ibid

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<sup>18</sup> Ibid

<sup>19</sup> As in HM Treasury's [Public Value Framework](#)

<sup>20</sup> Co-operatives UK currently works with the Locality, Power to Change and the Architectural Heritage Fund, to operate the Community Shares Booster Programme. Through Co-operatives UK, the Booster Programme makes match investments of up to £100,000 alongside communities in societies raising money through Community Shares.

<sup>21</sup> Community Shares Unit

<sup>22</sup> As in HM Treasury's [Public Value Framework](#)

<sup>23</sup> See [Section 24](#) of the Co-operative and Community Benefit Societies Act

<sup>24</sup> <https://communityshares.org.uk/resources/handbook>

<sup>25</sup> <https://communityshares.org.uk/standard-mark-0>

<sup>26</sup> <https://communityshares.org.uk/standard-mark-practitioners>

<sup>27</sup> <https://communityshares.org.uk/open-data-dashboard>

<sup>28</sup> The Community Shares Unit was and remains a partnership between Co-operatives UK and Locality, hosted institutionally by Co-operatives UK