

Community Shares

Inside the Market Report June 2015



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Introduction

Inside the Market Report

“(Community Shares)... dramatically increases the participation of individual citizens in social investment.”

Building a Social Impact Investment Market: The UK Experience, September 2014

“It is possible that community shares may already be the most significant source of ‘cheap, risky, long term growth finance’ available to social sector organisations.”

After the Gold Rush – The Alternative Commission on Social Investment, March 2015

The community shares model has been subject to a considerable level of interest in the last few years. This form of finance is now considered a key component of a wider social investment market, which has itself, generated a growing profile.

Yet earlier this year, the Alternative Commission on Social Investment reported that the social investment market was possibly not “living up to the rhetoric of politicians and social investment leaders nor meeting the expectations of many charities and social enterprises.”

In particular, the report highlighted that actual evidence of need within the social sector was largely limited to an unmet demand for “cheap, risky, long term growth finance in the tens – but not hundreds – of thousands.” With this, it recognised the important role that community shares was playing in meeting this demand.

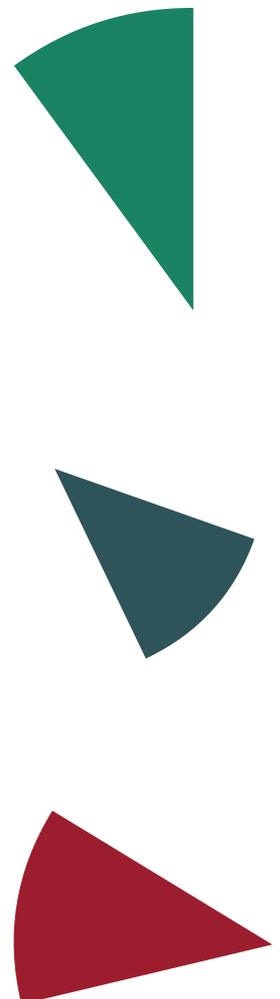
There is no denying the fact that the community shares market has witnessed quite remarkable growth over the last decade. This can be seen in the context of the wider expansion of the alternative investment market in the extraordinary market conditions following the financial market crash of 2007/8. The policies adopted by governments across the world, characterised by extensive quantitative easing to avoid systematic collapse, have resulted in exceptionally low base rates and hence returns for savers.

Some investors have moved to alternative investments in pursuit of higher yields while others have been driven by their disappointment in the banking system to look for investment options more aligned with their ethical or social concerns.

This growing public appetite for investing in and supporting community enterprises is demonstrated by the fact that community shares has brought 60,000 new investors to the market in less than five years, generating the cheap, risky, long-term growth finance so sought after by social sector organisations.

Yet despite these encouraging signs, it is important that the analysis of community shares continues to be rooted in evidence – a central argument of the Alternative Commission’s report. With this, the Community Shares Unit (CSU) has decided to produce this market report to provide a measured analysis of the market, based on the data and intelligence as it stands.

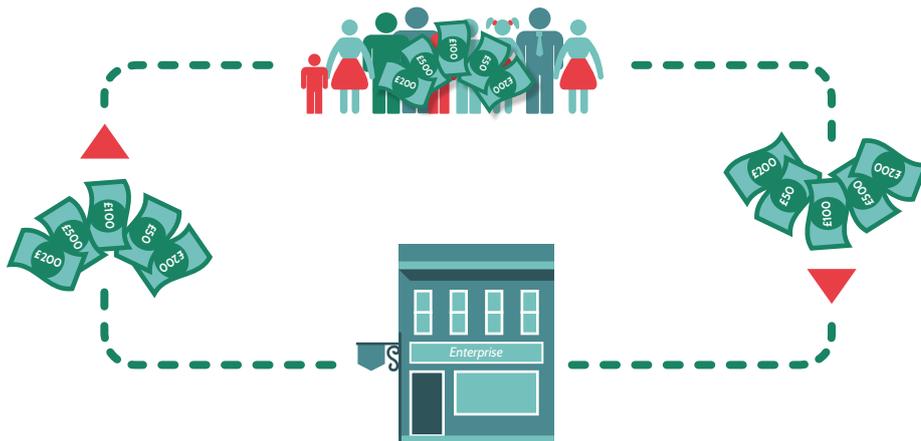
This report is also part of a wider ambition to ensure national standards of good practice and to promote public confidence in community shares. Central to promoting public confidence is the ability to provide accurate information about the market as a whole. Furthermore, it is important to not only set out “how” enterprises are raising this finance, but “why” individuals themselves are investing. With this wider perspective, the CSU can hopefully contribute a meaningful element of the overall evidence base which is so crucial to bridge the gap between the rhetoric of social investment leaders and the needs of social enterprise.



Introducing community shares: equity for social enterprise

All enterprises need risk capital to start, to grow, and to be sustainable. This capital is usually provided by the shareholding owners of the enterprise, plus funding from lenders and, of course, from the business itself, reinvesting its profits. Risk capital allows the enterprise to ride the ups and downs of development, which are to be expected when pursuing ambitious, challenging or innovative business goals.

Figure 1: How community shares work



One of the main reasons why social enterprises can find it difficult to compete with private enterprises is their lack of risk capital. A root cause of this under-capitalisation is the belief that social enterprises cannot, or should not, have shareholders. Equity investment is often considered as being incompatible with social purpose, because shares give legal title, meaning that the enterprise is owned, controlled and run in the interest of investors.

“Community shares” provides a mechanism to bridge the gap between under-capitalisation and ownership of social enterprise. This term refers to non-transferable withdrawable share capital; a form of share capital unique to co-operative and community benefit society legislation. This type of share capital can only be issued by co-operative societies and community benefit societies, including charitable community benefit societies and has some unique characteristics:

1. 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.
2. 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.
3. Shareholders have only one vote, regardless of the size of their shareholding, so the society is democratic. There is also a limit on personal shareholdings, currently up to £100,000.
4. 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 investment.
5. Finally, the majority of societies are subject to an 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.

The consequence of these provisions is that societies are not subject to “financial takeovers”, in that they do not offer the prospect of capital gains, and therefore need to attract investors whose interests are aligned with the underlying purpose of the society. For societies it provides a source of long-term patient risk capital which helps attract other forms of finance (grant, donations and debt) giving the enterprise a good chance of viability and sustainability.

Based on all these qualities, community shares are an ideal way for communities to invest in enterprises serving a community purpose and have been used to finance shops, pubs, community buildings, renewable energy initiatives, local food schemes, along with a host of other community based ventures.

This is an extract of the Community Shares Handbook – a comprehensive guide for professional practitioners who provide advice on community share offers. To explore the guide in full visit www.communityshares.org.uk

The Community Shares Unit

The term community shares was coined by the Development Trust Association (DTA) (now known as Locality) in its 2008 publication Community Share and Bond Issues, which examined how a growing number of community enterprises were raising investment capital from their local supporters.

In the same year, Co-operatives UK published a document called “Community Investment” – using the original industrial and provident society legislation, addressing the same phenomenon, but focusing exclusively on societies. (The Co-operatives and Community Benefit Societies Act 2014 (CCBSA) saw the removal of the term industrial and provident society from legislation.)

Towards the end of 2008 the DTA and Co-operatives UK came together to establish the Community Shares programme, an action research partnership funded by the Cabinet Office and the Department of Communities and Local Government (DCLG). The programme ran from 2009 to 2011. Over 70 societies registered during this period have now successfully completed a community share offer.

The Community Shares Unit (CSU) was launched in October 2012. It continues as a joint initiative between Locality and Co-operatives UK, with funding from DCLG and Department of Energy and Climate Change (DECC). Its overriding objective is to grow a sustainable market and ensure the long-term success of the use of community shares to raise equity finance and participation, with due process and protection for investors, in a range of community and co-operative enterprise.

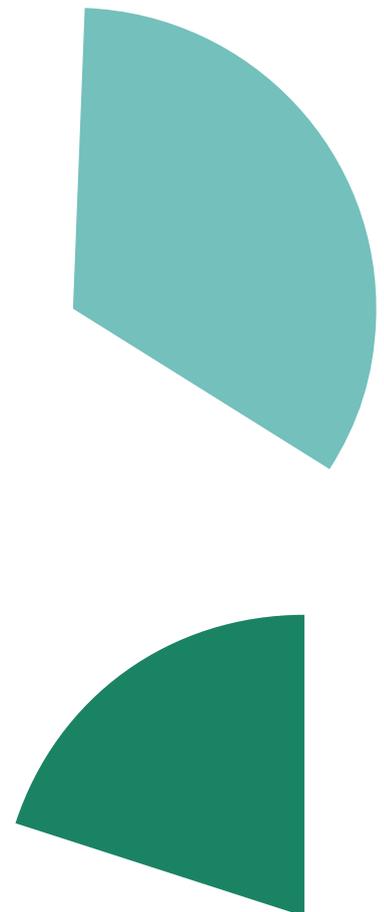
Market Intelligence

Supporting intelligence and transparency through market analytics was identified early on as core to the CSU’s work to grow the community shares market. From early 2013, the CSU has sought to record market activity using an online database: www.communityshares.org.uk/directory

This in itself has not been a straightforward process. Firstly, access to societies’ records via the Financial Conduct Authority (FCA) Mutuals Register is neither as comprehensive nor as automated as what is now in place for companies via Companies House. This limits the CSU’s ability to easily obtain information for societies planning and launching share offers, alongside monitoring their subsequent trading activities.

However more fundamentally, societies are under no obligation to report their share offer and so there is no formal mechanism for the CSU to record and track community share offers. Thus, the database relies largely on secondary research and whilst every effort has been made to ensure the accuracy of the data, it cannot be considered wholly exhaustive or precise.

Nevertheless, the database provides open and accessible information about societies financed through community shares and this evidence base has proved vital for the CSU’s wider work encouraging policy reforms, raising awareness of the model and introducing national standards of good practice.



Inside the Market Report

This is the first time the CSU has brought together its data and intelligence to present a comprehensive overview of the community shares market. The aim of this report is to showcase the information the CSU captures on the market across three key sources:

1. **Community Shares Directory:** data on enterprises which are planning a share offer and those that have completed offers. Further information on the precise methodology is contained at the end of the report.
2. **Share Offer Document Library:** The CSU holds approximately 200 share offer documents, from which we have extracted key information such as the fundraising targets, the proposed returns to investors, and the shareholding limits.
3. **Microgenius:** Microgenius is a digital platform operated by the CSU and enables societies to administer their share offer online. On this basis, it has access to analytics on the share offer campaigns as well as giving access to investors to capture attitudes and behaviours through investor surveys.

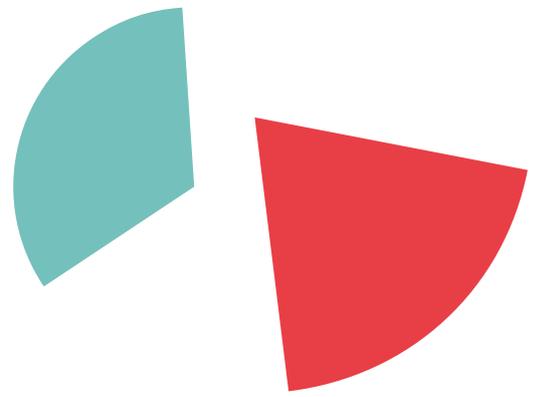
The report will cover each of these sources in turn, before bringing the analysis together to give an overarching account of the community shares market, and how this is being considered in the wider work of the CSU.

Figure 2: CSU sources of intelligence



Section 1

A focus on the market



Defining community shares

With any analysis of a sector or market, it is important to have a clear definition of the activity that is being focused on. This is particularly pertinent to community shares given it has no formal definition but rather refers to an underlying and rather complex technical feature, which can be subject to contrasting interpretations.

The CSU's starting definition has been to consider societies that have raised at least £10,000 in share capital from at least 20 members. This characterisation was introduced during the initial research programme from 2008, in which it was determined that 39 societies had each raised more than £10,000 in share capital through public share offers since the early 1990s.

However as the CSU has been developing its guidance, it has become increasingly aware of important parameters that need to be applied to ensure a clear and accurate definition when considering the community shares market.

The first parameter is the recognition that in recent years, there has been a growing number of share offers in the renewable energy sector, predominantly issued by a leading developer Energy4All, which issue transferable shares. Such offers fall outside of the scope of the CSU in which withdrawability is a critical feature of the model. Furthermore these offers fall into the regulated space with respect to the FCA's financial promotion rules.

While this has been an established position for the CSU, more recently we have recognised the importance of narrowing the definition further, by excluding societies that do not have an asset lock, and therefore could be subject to capital speculation and capital gain by the members. The lack of a voluntary asset lock in co-operative societies is much more common than societies issuing transferable share capital.

This cohort of societies have emerged on the basis that there are several "model rules" – template governing documents for societies which have been approved by the FCA, that allow distribution of residual assets to members.

This report provides an analysis of historic market trends in which societies that have issued withdrawable share capital but do not have an asset lock are included. However from now, the CSU will be taking forward a narrower definition of community shares which excludes societies issuing transferable shares as well as societies that have no form of asset lock.

In particular, the introduction of the Community Shares Standard Mark highlights the need for societies to ensure restrictions on the distribution of residual assets, and in turn is the key rationale for adopting a new definition and changing our recording processes accordingly.



Going for growth

Number of share offers

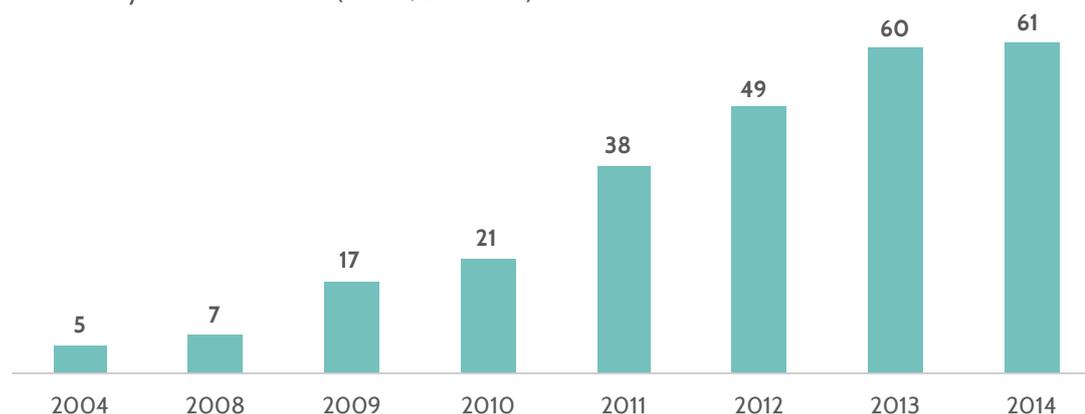
The community shares market has been characterised as one of growth and development throughout the period that a dedicated support programme has been active. However before this time, the offer of share capital by societies could only be considered as a rarefied and niche activity utilised by a handful of enterprises.

Nowhere is this clearer than simply looking at the number of share offers launched by co-operative and community benefit societies over the last ten years. In 2008, the first market research highlighted that since the beginning of the decade, share offers were taking place at a rate of about five new initiatives per year. Yet by 2009, the model had started to become more common place, with the number of share offers increasing by more than two-fold from the previous year.

Between 2009 and 2014, 246 share offers were launched, compared to less than 30 for the previous six-year period. We consider 2009 as the 'tipping point' for the community shares market.

Graph 1: Community share offers over time

Community share offers launched by co-operative and community benefit societies (2004, 2008-14)



Source: Community Shares Directory, CSU

The annual number of community shares offers grew consistently between 2010 and 2013. However, in 2014 there was only an increase of one share offer on the previous year. This marginal increase is likely the consequence of a heightened sense of instability for the sector. We think the lack of growth in 2014 may have been caused by a number of factors including uncertainty generated by regulatory change in the CCBSA 2014, proposed changes to tax benefits associated with community shares, the suspension of the activities of the Co-operative Enterprise Hub – an important provider of development support, and improvement in the wider economy which has slowed the pace of closure of rural shops and pubs.

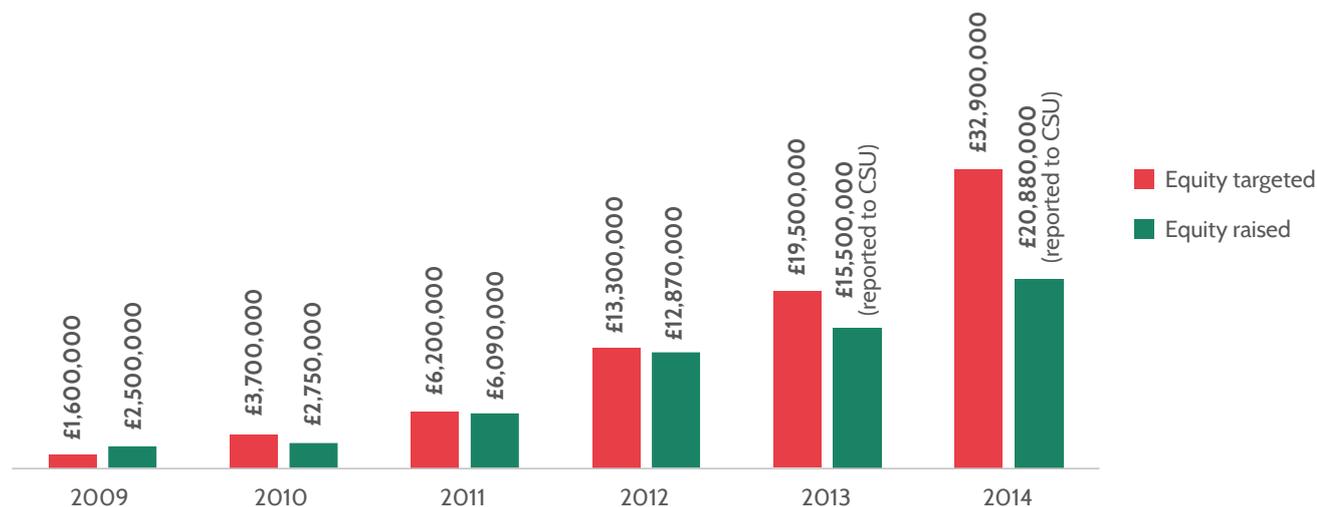
However, growth appears to have had returned to the market. By June 2015, there have already been 40 share offers launched – indicating that this year could see the number of shares offers rise by a third.

Investment Raised

Furthermore this plateauing should be viewed in light of other key indicators of growth, specifically the equity targeted and raised by offers, as shown below:

Graph 2: Equity targeted and raised over time

Equity investment targeted and subsequently raised by societies' community share offers (2009-2014)



Source: Community Shares Directory, CSU

Rounded to nearest £100k

Equity targeted data from offer documents. Equity raised data from Annual Returns (2009 -12) and reported to CSU (2013-14)

A key consideration for the CSU is that we cannot access a fully accurate figure for the amount raised until it is submitted within a society's annual return, which can often be over two years after the launch of the offer.

With this, the CSU uses two indicators to capture the investment amounts associated with community share offers. Firstly, it captures the equity targeted i.e. the target amount stated within the share offer document. This gives the CSU an immediate indication of the investment amount sought, allowing us to track the market in real time.

This is also particularly valuable given the difficulty and time lag associated with capturing the second indicator – equity raised. On this basis, the figures used for equity raised are currently only accurate to 2012, with the CSU not having access to all the respective annual returns covering offers in subsequent years.

Even using the conservative estimates for the last two years based on what has been reported directly to the CSU, the community shares market has raised almost £60m in the last five years, with upwards of £20m raised in 2014 alone. This in itself is not an inconsequential figure, but when set in the context of the wider social investment and alternative finance sector, is particularly illuminating:

- ▶ Community shares now comprises over 10% of the overall annual social investment market, which has been measured at approximately £200 million of funding per year and characterised as being overwhelmingly dominated by secured lending to charities and social enterprises¹
- ▶ It is the second largest form of 'crowdfunding' in the UK, second only to equity crowdfunding in 2014 at £84m²

The increase in share capital raised is largely a result of the emergence of larger offers, spearheaded by the renewable energy sector. This 'consolidation effect' is covered later in the report.

¹ GHK, Growing social investment: Landscape and economic impact, 2013

² Nesta and Cambridge University, Understanding Alternative Finance Report, 2014

Number of members

Yet, the most important feature of community shares – which sets it apart from any other form of social investment and alternative finance, is where the investment is coming from. The figure below shows the numbers of people becoming members of co-operative and community benefit societies through investing in community shares.

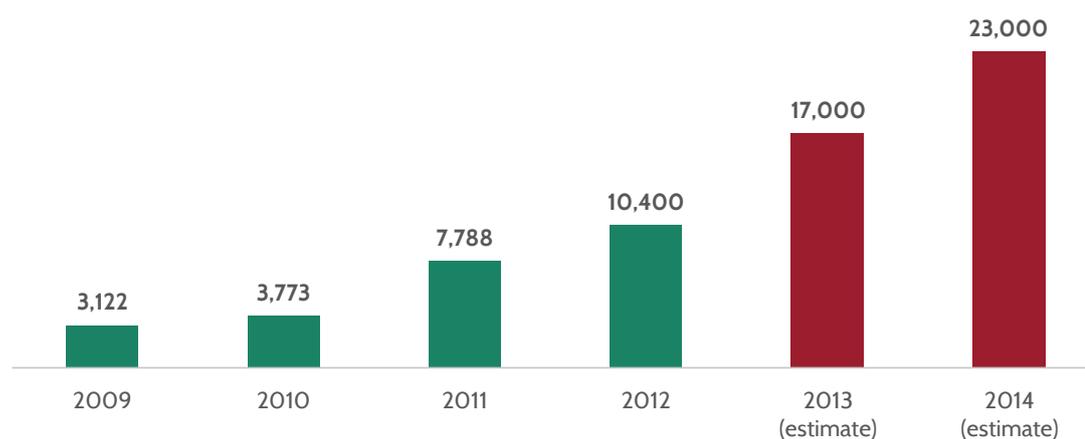
The ability to capture this data is similar to that of equity raised, in that a wholly accurate figure is reported only in a society's annual return. As a result, the CSU is working off estimates for 2013 and 2014 based on total share capital raised divided by average investment per member and is explained further at the end of the report.

Since 2009, over 60,000 people have become members of societies and invested through community shares. The profile and motivations of these community shares investors are explored in Section 3, but if we consider the rate of growth, the community shares market has been by far the fastest growing part of the wider co-operative economy in the last five years.

Overall, the number of members in the co-operative sector has increased by just short of 15% since 2010. The community shares market on the other hand has increased nearly twenty-fold in the same period.

Graph 3: Number of members over time

Number of people becoming members of co-operative and community benefit societies through investing in community shares (2009 – 2014)



Source: Community Shares Directory, CSU

Data for 2009-12 from Annual Returns. 2013-14 data generated by estimates based on share capital raised / average investment.

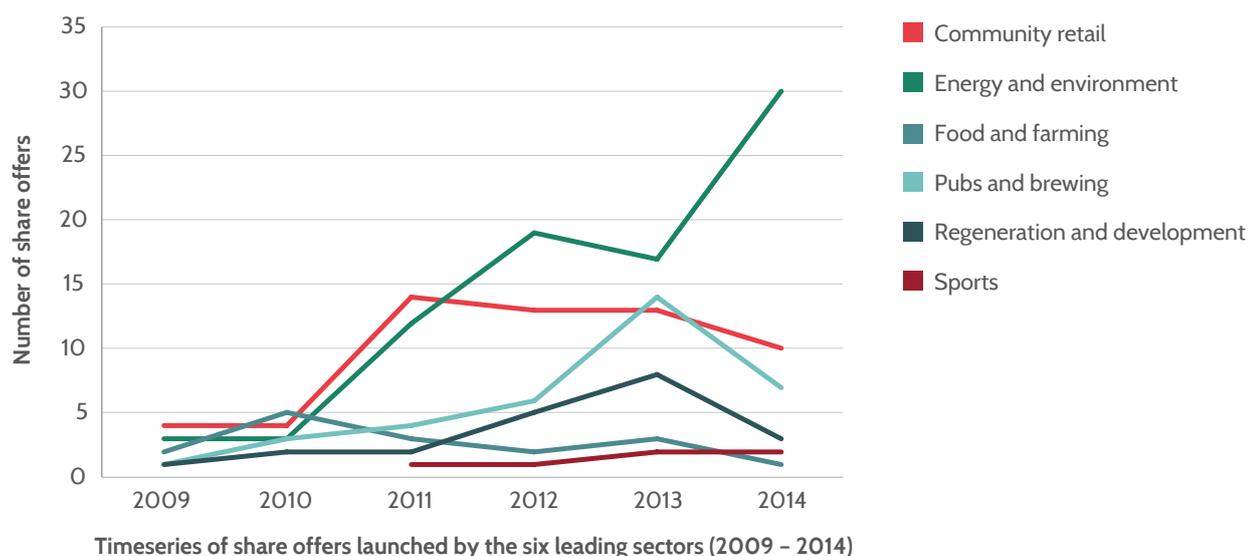
Importance of sectors

What has been fuelling the growth in community share offers? The simple answer is that a growing number of communities are turning to this form of finance to give local people real and meaningful ownership of valued assets across a range of sectors.

The figure below charts the six leading sectors that have underpinned the growth in the community shares market in the last six years, in which a clear narrative on the fortunes of the various industries starts to emerge.

In particular, energy has seen the most offers, growing each year since 2011 – although even this sector saw a blip in its growth in 2013, most possibly the result of uncertainty in the feed-in-tariff subsidy scheme which is key to the commercial viability of most renewable energy schemes. Community retail grew in line with energy to 2011 but has remained flat ever since. However it remains the second largest sector, and even with the upturn in the UK economy slowing the closure of local shops, it is likely more share offers for community shops will come forward. Most other sectors also saw a decline between 2013 and 2014, which again could have been due to the suspension of the Co-operative Enterprise Hub.

Graph 4: Community shares by leading sectors, over time

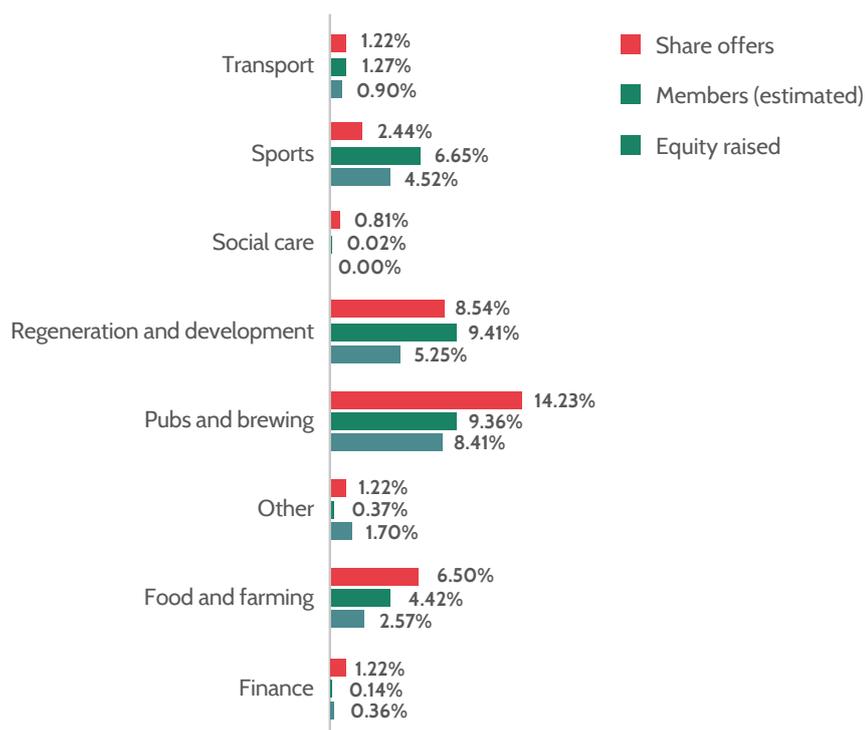


Source: Community Shares Directory, CSU

The contrast in fortunes between renewable energy and the other sectors is highlighted in the figure below, which shows relative market share for each industry by number of share offers, number of members and amount of equity raised. Renewable energy is dominant in all three categories but in particular the amount of equity raised. Investments in community energy schemes now account for 70% of all investment in the community shares market.

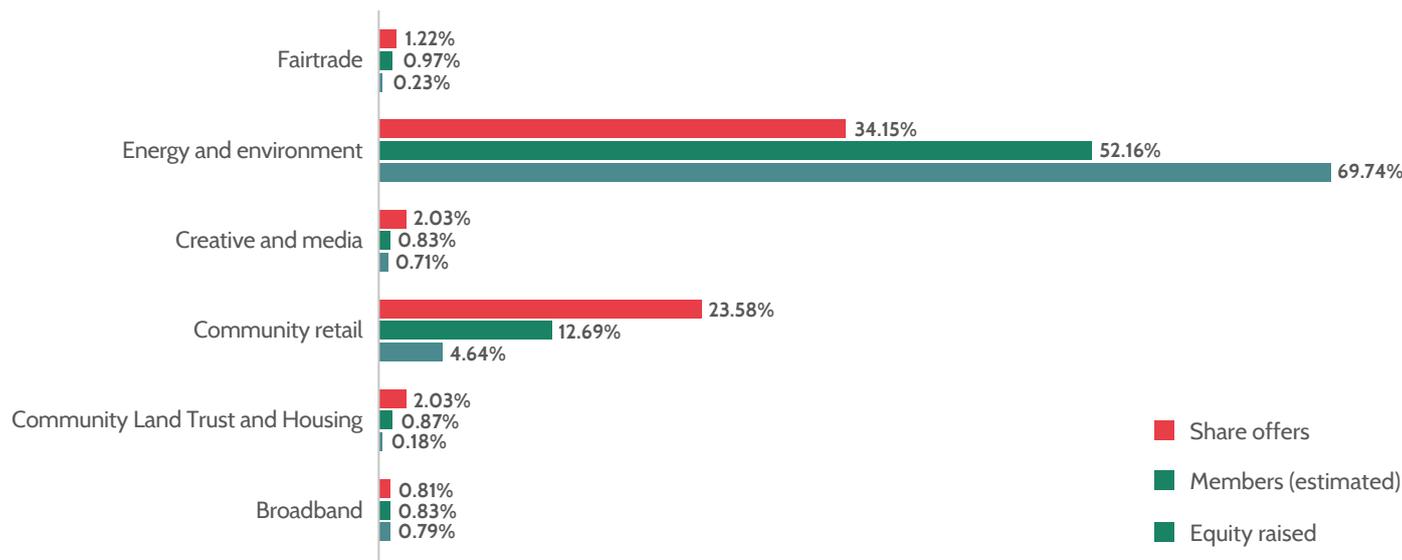
Graph 5: Community shares by sector

Proportion by sector (%)



Source: Community Shares Directory, CSU

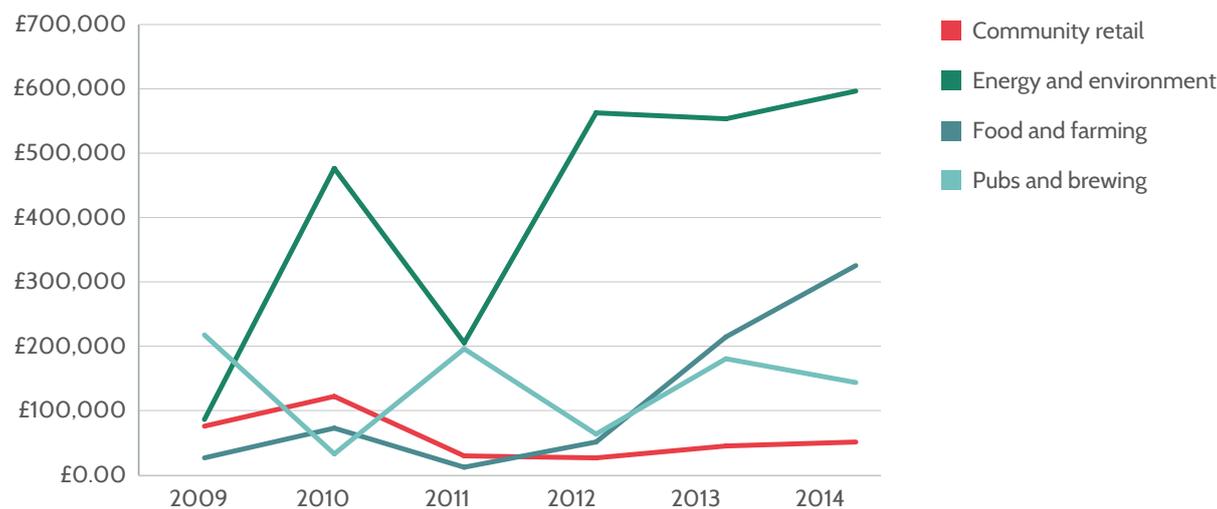
Graph 5: Community shares by sector continued



The dominance of renewable energy schemes is not only down to the increased number of share offers for this sector, but due to the growth in the average share offer value. These enterprises are most often focused on solar, wind and hydro installations, all of which have seen communities looking to install larger schemes which require higher capital outlays. The average community energy share offer is now £600,000 – almost double the next largest sector – food and farming.

Graph 6: Average investment raised by sector

Average investment (£) raised over time by the four leading sectors (2009-2014)



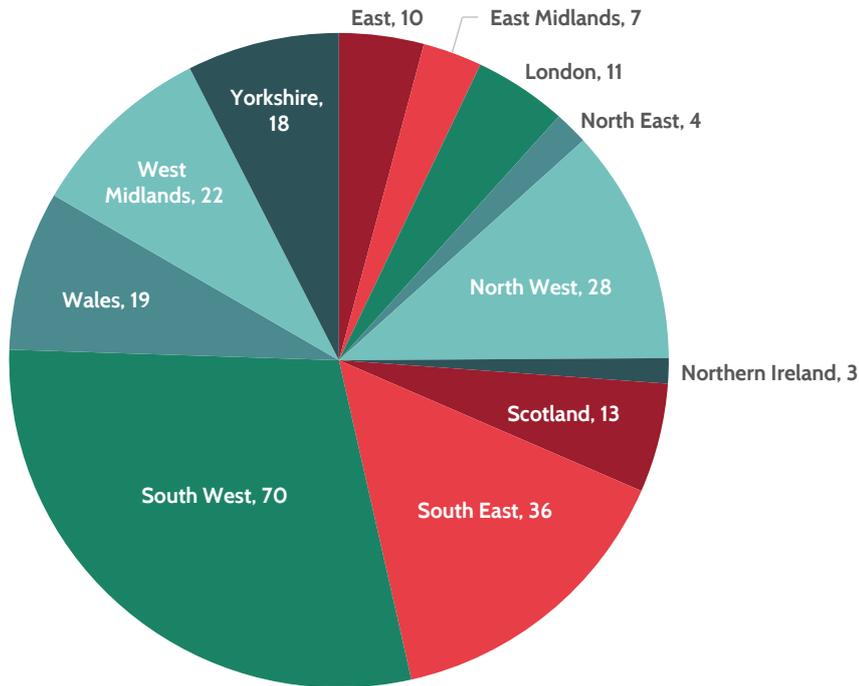
Source: Community Shares Directory, CSU

The geography of community shares

Community share offers are taking place up and down the country, however it is not happening uniformly. As the figure shows below, on first viewing community shares appear to be characterised by a well-established north-south divide, with the south west and south east the two leading regions for share offers.

Graph 7: Community shares by region

Regional location of societies launching community share offers (2009 – 2014)

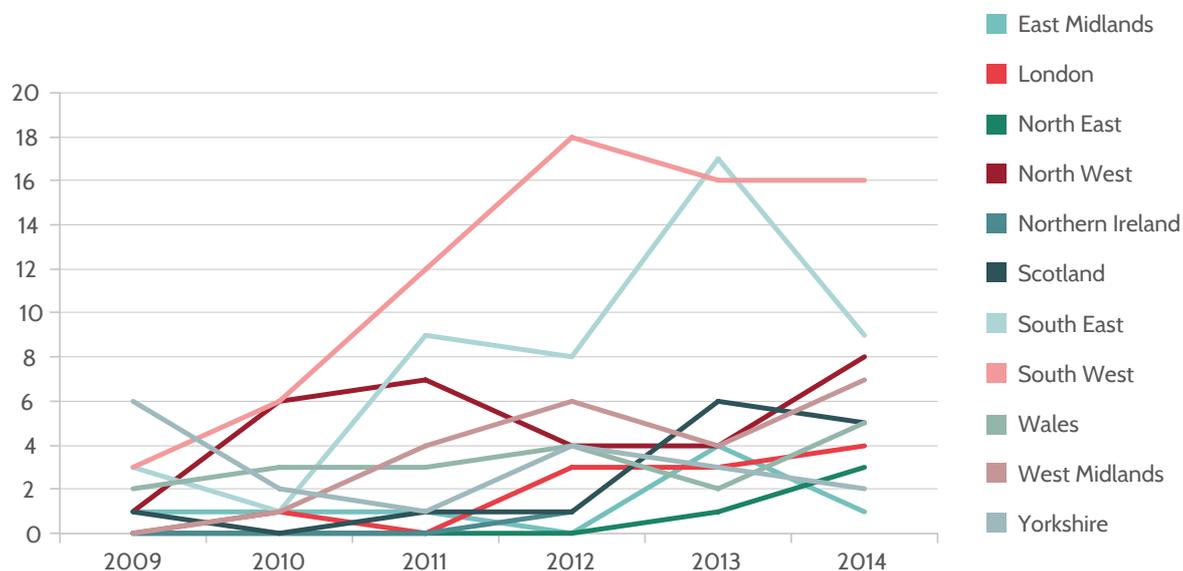


Source: Community Shares Directory, CSU

However while the south west continues to see a high concentration of offers, buoyed by the favourable weather conditions for renewable energy and a culture of self-reliance, the last couple of years has seen a more even distribution of share offers across the country. The north west and the west midlands have seen a series of offers in the last two years, and Scotland – with its own community shares support programme, has moved from one of the weakest areas to overtaking a number of other regions.

Graph 8: Community shares by region over time

Regional location of societies launching community share offers (2009 – 2014)



Source: Community Shares Directory, CSU

Even within regions, there are concentrations of share offers in more precise geographies. These 'hotspots', as shown in the heatmap below, include the urban conurbations of Oxford, Manchester, Bristol and Brighton, as well as the more rural areas of Gloucestershire, West Yorkshire and Cumbria.

The existence of community shares hotspots has been clearly witnessed for a number of years, and may be the result of local communities becoming equipped with the skills, confidence and enthusiasm through an initial share offer to then work on further initiatives.



Community benefit or co-operative?

The Co-operative and Community Benefit Societies Act 2014 came into force on 1 August 2014, consolidating and replacing previous industrial and provident society legislation. A key component of the new act is that it compelled new societies to be registered specifically as a co-operative society or a community benefit society (including a charitable community benefit society).

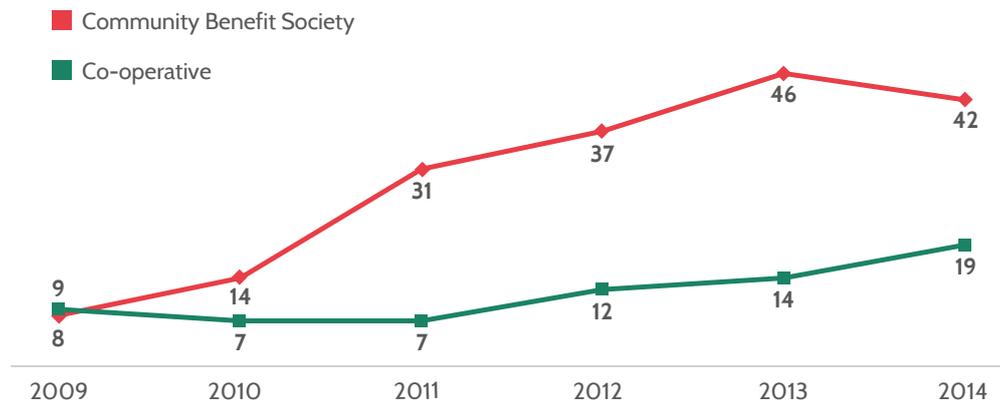
The CSU has been able to determine the type of society issuing community shares for all the enterprises on the database, even though prior to 1 August 2014, a society had to have the characteristics of either a co-operative society or a community benefit society, but it was not registered as a specific type of society.

As the figure shows, back in 2009 the split was fairly even between the two forms. However since then, more and more enterprises have opted to register as a community benefit society when launching a share offer. This trend highlights the natural alignment of the community benefit society with one of the key principles of community shares, which recognises the importance of restricting the ability for shareholders to make a private capital gain.

In almost all cases, community benefit societies have an 'asset lock' which prevents the enterprise from converting to a form that would allow it to distribute residual assets to members. The likelihood is that more and more enterprises will choose to register as a community benefit society, with tax reliefs such as Social Investment Tax Relief (SITR) being restricted to community benefit societies rather than co-operatives.

Graph 9: Community shares by type of society

Type of societies launching community share offers over time (2009 – 2014)



Source: Community Shares Directory, CSU

The community shares journey

The Community Shares Directory also tracks the ‘community shares journey’ from registration to share offer to post-offer trading. We classify enterprises as pre-launch, post-launch or lapsed.

Post-launch denotes all societies which have successfully launched and completed a share offer. Societies that have registered in the last two years but are yet to launch an offer are considered ‘pre-launch’ and those registering over two years ago are classified as ‘lapsed’. We recognise pre-launch and lapsed as there is often a significant lead-in time before an enterprise is in a position to launch their share offer. Indeed some societies will never get to the point of being able to launch a share offer due to issues and constraints at the development stage.

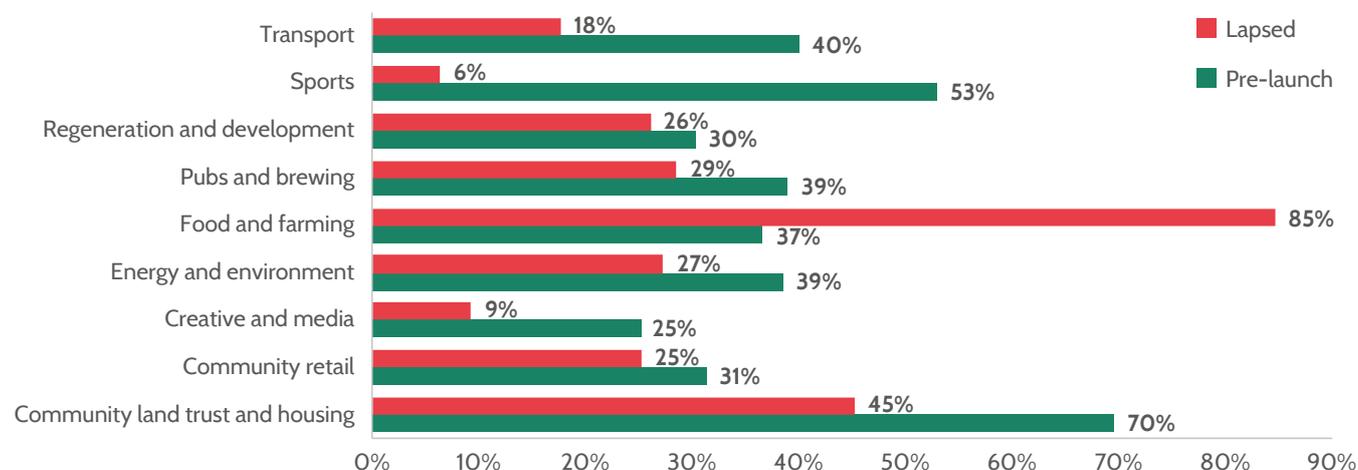
Using this classification, the CSU is able to determine which sectors face the largest development challenges. As shown below, food and farming schemes in particular struggle to move to a share offer with 85% of societies falling into this lapsed category. Similarly, a number of CLTs and other community housing schemes have been unable to realise their share offer plans in the two years since registering.

Other sectors with a number of ‘pre-launch’ societies include Sports and Transport – both of which have a large proportion of enterprises which have yet to launch an offer, although these are still relatively new ventures and may issue offers in the near future.



Graph 10: Pipeline: pre-launched and lapsed societies

Percentage of societies by sector that have not launched a community share offer, split into two categories;



Source: Community Shares Directory, CSU
Pre-launch: registered after January 2013 and have yet to launch a share offer
Lapsed: registered before January 2013 and have yet to launch a share offer

An early view on performance

Annual Return data for societies that have completed a share offer not only provides information on the share offer itself, but contains information relating to the trading performance of these enterprises. Currently the CSU has a limited picture with 81 annual returns for the years 2013 and 2014 – largely for societies launching share offers in 2012 and earlier. As such this section is regarded as an ‘early view’ on performance, representative of less than a third of the societies that have completed community share offers.

The figure below sets out the key business performance indicators, extracted from society’s annual returns, for the five leading sectors in the community shares market. The figures presented are based on relatively low sample sizes, so the total values presented are significantly below the figures in reality; however it does provide some useful initial findings:

- ▶ Across sectors, a considerable amount of debt finance is being accessed by enterprises alongside the share capital secured. In most sectors, loans are being secured against equity on a broad ratio of 1:1. The exception would be for community pubs which based on the available annual returns are relying almost wholly on share capital (and potentially grants) to meet their capital requirements.
- ▶ A limited amount of share interest is being paid out by societies. This is expected since the societies for which annual returns are available have not been trading for that long. Furthermore, for community shops, not one society has paid out share interest to its members.

Society performance indicators using annual return records

Key indicators taken from available annual returns – sum total by sector

Sector	Total Share Capital	Associated loan finance (long-term liabilities)	Online	Share interest paid out to members	Sample size (no. of annual returns)	Sample size (as % of total share offers for in the sector)
Community retail	£900,834	£596,579	£3,827,760	£0	27	46%
Energy and Environment	£15,575,007	£12,333,971	£3,592,522	£345,446	29	25%
Food and farming	£542,426	£582,868	£1,384,366	£9,781	8	47%
Pubs and Brewing	£1,321,357	£77,982	£1,226,425	£10,101	11	29%
Regeneration and development	£1,485,681	£1,337,870	£457,197	£25,917	6	29%
Total	£19,825,305	£14,929,270	£10,488,270	£391,245	81	18%

Source: Community Shares Directory, CSU

Moving to the next table, which shows the average values by sector, the key findings to highlight are:

- ▶ Pubs and renewable energy schemes are generally the most profitable while enterprises in other sectors appear to operate on a fairly marginal basis
- ▶ Community energy schemes are relatively heavily capitalised, when compared to their annual turnover, this is consistent with the higher capital outlays associated with the installation of renewables

It is recognised that there is currently a limited amount of information regarding business performance. In the next couple of years, it is likely that a large number of annual returns will be submitted for those societies which launched offers in the last few years. As such, more significant trends should become clear once the CSU has access to a larger dataset.



Society performance indicators using annual return records

Key indicators taken from available annual returns – average values by sector

Sector	Av. Share Capital	Av. Associated loan finance (long-term liabilities)	Av. annual turnover	Av. Share interest paid out to members	Average Surplus / Deficit
Community retail	£33,364.22	£22,095.52	£141,768.89	£0.00	£7,133.70
Energy and Environment	£537,069.21	£425,309.34	£123,880.07	£11,911.93	£31,315.07
Food and farming	£67,803.25	£72,858.50	£173,045.75	£1,222.63	-£1,212.00
Pubs and Brewing	£120,123.36	£7,089.27	£111,493.18	£918.27	£43,118.34
Regeneration and development	£247,613.50	£222,978.33	£76,199.50	£4,319.50	£1,219.83

Source: Community Shares Directory, CSU

Section 2

A focus on offer documents

In this section we examine share offer documents and analyse the interest rates and minimum shareholdings stated in them. This information is sourced from the CSU library of 192 share offer documents produced by 169 societies during the period 2009 to 2014. Within the library 19 societies made two offers and two societies made three offers in this period. However, we acknowledge this analysis falls short of a universal view of the market since it excludes documents from a number of societies that are known to have made share offers but where offer documents were unavailable.

Interest Rates

A key reference in the share offer documentation held by the CSU is the presentation of interest rates. The table below provides the breakdown of interest rate statements for all societies.

All types of society are allowed to pay interest on members' share capital. Most co-operative and community benefit societies adopt rules that set a maximum rate of interest. The actual interest rate payable should only be determined after the financial year end, when the profit for the period is known and the management committee is in a position to make recommendations to the annual general meeting of members about the application of profits (see [Handbook Section 3.2.12](#)). These recommendations should include other uses of profit, such as reinvesting in the society, supporting other initiatives of benefit to the community, or in the case of co-operative societies, paying a dividend to members (see [Handbook Section 6.3](#)).

Breakdown of share interest statements for all societies

Share interest rate statement (focus on maximum rate or lifetime average rate)	All societies
No rates stated	25 (13%)
0% or stated unlikely ever to pay interest	27 (14%)
Up to 3% or savings rate equivalent	28 (15%)
3.1% to 4.0% or base rate plus 2% to 2.5%	29 (15%)
4.1% to 5.0% or base rate plus 4%	40 (21%)
5.1% to 6.5%	11 (6%)
6.6% to 7.5%	13 (7%)
7.6% to 8.5%	8 (4%)
8.6% to 9.5%	4 (2%)
Greater than 9.6%	7 (4%)
Totals	192 (100%)

There are many different conventions used for expressing a society's policies towards interest rate on share capital. Indeed, just less than 15% of share offer documents made no mention of share interest rates. Similarly, another 15% indicated the likelihood or intention that the society would never pay interest on share capital.

Of those that stated an ambition to pay interest, the most common rate of interest was a maximum between 4.1% and 5% or base rate plus 4% with a fifth of offers in this interval. Fifteen per cent of offers referred to a maximum interest rate at or below 3%, or indicated that rates would not be higher than savings rates, and a similar number referred to a maximum rate of between 3.1% and 4% or a formula based on bank rates plus up to 2.5%.

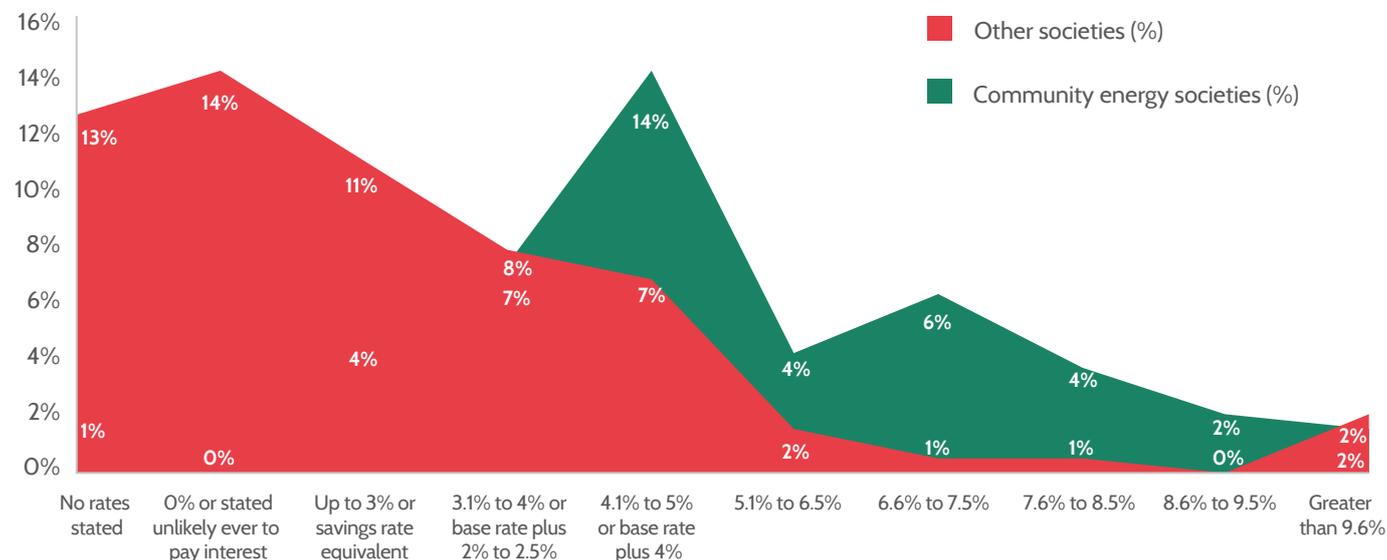
Overall more than three-quarters (78%) of all share offer documents state policies that set the maximum share interest rate at or below the equivalent of 5%. These rates were typically expressed as the maximum share interest rate the society was allowed to pay, based on its rules.

Only 43 share offers (22% of the total) state a share interest rate above 5%. In many of these cases, the share offer document stated an average rate of the lifetime of the investment project, rather than any expression of a cap on interest rates in a given year. The data in the above table is based on these average lifetime rates, where they are stated, rather than the maximum rate in any one year.

It should be noted that this data includes six share offer documents published by community energy societies which promoted transferable share capital as covered earlier in the report, and were fully authorised as financial promotions. All six of these share offers stated average lifetime share interest rates above 7.5%.

Graph 11: Stated returns in share offer documents

Stated maximum returns in share offer documents (percentage of offers that fall into interest rate categories, 2009 - 2014)



Source: CSU Offer Document Library

The figure above highlights the strong contrast between the interest rate policies of community energy societies and all other societies making community share offers. Share offers by community energy societies typically contained aspirations to pay share interest, with more than half (59%) referring to rates no greater than 5% per annum, with the remainder promising higher rates, typically lifetime average rates up to 10%. Nearly all (93%) other societies state a maximum share interest rate at or below 5%. This is in line with the Handbook guidance on how financial returns should be stated in the offer document.

Minimum Shareholdings

It is up to the society to determine what the minimum investment should be and a review of share offer documentation reveals that the minimum investment required has ranged from £10 to £500 as shown in the table below.

Community energy offers are more likely to set a higher minimum shareholding, with many pitching at £250 – this is likely influenced by the larger overall fundraising requirements for community energy projects. In contrast, the majority of community pubs and shops set their minimum shareholding at the lower end, between £10 and £100. This is often to encourage more people to invest because the stakes are lower.

Graph 12: Minimum shareholdings stated in share offer documents

Percentage of offer documents that state minimum shareholdings according to the following categories



Source: CSU Offer Document Library



Section 3

A focus on investors



Introduction

This section provides an insight into investors in community shares based on research carried out by NESTA and Cambridge University into the alternative finance market at the end of 2014. This research investigated the motivations and characteristics of individual investors across a range of alternative finance instruments, including community shares. It has been noted above that the growth of the community shares market is part of the wider growth of the alternative investment market and the wider market conditions post financial crash.

This section has been written in partnership with Manchester Business School. Since April 2014, the CSU and Manchester Business School have been engaged in a process of knowledge exchange to explore the potential of the community shares market as an emerging form of community and social entrepreneurship.

The partnership between the CSU and MBS develops research activity that can frame a broad range of local economic and community issues, potential solutions, and possible delivery models to assist practitioners and policy-makers, and to underpin more systemic analyses of the potential and impact of new forms of community-led enterprise.

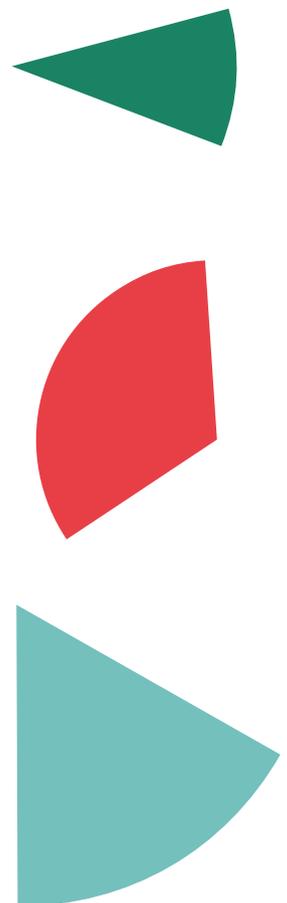
Early studies into investor motivations

In 2010 Wessex Community Assets conducted a study to profile investors in community share offers, and distinguished four types of community share investor:

- ▶ Local community investor: individuals who live near to the project and are motivated by the social benefits of investment.
- ▶ Community of interest investor: individuals who are interested in the project, and motivated by social benefits although they do not live nearby.
- ▶ Social investor: an institution or experienced investor seeking to balance social and financial benefits.
- ▶ Ethical investor: individuals seeking social benefits but without foregoing financial compensation and sometimes motivated by the ideology and democratic structures associated with co-operative societies.

The Wessex research also developed a profile of the average community shares investor as over 45 years old, slightly more likely to be male (particularly investors not classed as 'local community investors'), of higher or intermediate managerial level at work, or in a profession or retired, and a member of clubs and societies (e.g. 52% are members of the National Trust and 30% are members of arts organisations).

This report updates the Wessex research using a larger sample of investors from the community shares sector who responded to the UK Alternative Finance Industry survey completed by NESTA and the University of Cambridge (NESTA, 2014)³. This update is required due to the recent expansion of the community shares sector, and the subsequent need to understand the motivations of investors in more detail.



³ Anonymised survey data was made available to the Community Shares Unit

The Nesta Alternative Finance Study

The Alternative Finance market is a term used to refer to a diverse market that includes in this instance: Peer-to-Peer business and consumer lending; invoice trading; equity crowdfunding; community shares; rewards crowdfunding; pension-led funding; debt based securities, and donation crowdfunding.

The investor data analysed below was collected in the course of The UK Alternative Finance Industry Report (NESTA, 2014), which was conducted to provide a holistic and systematic analysis of trends and behaviour across multiple alternative financing models, including community shares.

As a whole, the amount of finance raised through these means rose from £267 million in 2012, to £666 million in 2013 and £1.74 billion in 2014 (NESTA/Cambridge report, 2014: 12). With this, the increasing investment in community shares can be seen as part of a growing pattern of financial relationships or interactions between consumers and enterprises that take place outside of the traditional financial sector.

The community shares investor survey formed part of the study and was disseminated to users of Microgenius. As of August 2014, 15 share offers had been administered through the site and it was the investors in these offers that were contacted to participate in the survey. In total more than 5,000 users were contacted and 380 responded, giving a response rate of 8.1%

Who is investing in community shares?

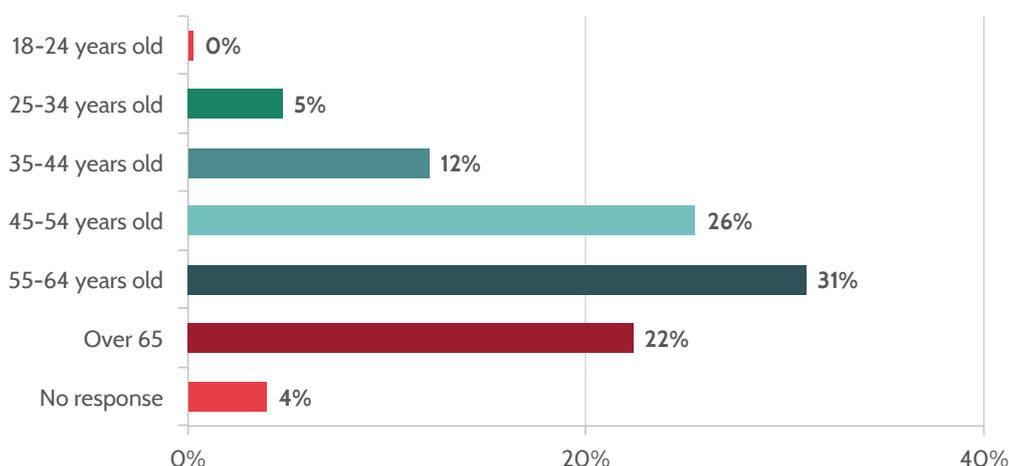
In the following section we consider the age; education and income of community shares investors and other forms of alternative finance. Specifically we consider the profile of individual investors in invoice trading; reward-based crowdfunding; donation based crowdfunding; Peer-2-Peer (P2P) consumer lending, and equity based crowdfunding.

How old are investors in community shares?

The Wessex profile of investors in community share offers found that the large majority were over 45 years old. This was confirmed by the larger sample surveyed in 2014, which found 79% were 45 years and older.

.....
Graph 13: How old are you?

Community shares investors (%)



Source: NESTA /Cambridge University, August – September 2014
 Base: Community Shares investors n=380
 Q16. How old are you?

The respondents to the NESTA/Cambridge survey were broadly similar to the Wessex study, but had a larger proportion of investors in community share offers being over 55 (57%) than under.

The NESTA/Cambridge survey enables us to compare the age profiles of investors in different types of alternative finance product, and for Peer2Peer Consumer Lending the trend towards 55+ is also found. However for other models of individual direct investment in alternative finance products a more balanced distribution can be found:

- ▶ Equity Crowdfunding: under 35: 38%; 35-54: 36% and over 55: 26%.
- ▶ Donation Crowdfunding: under 35: 23%; 35-54: 40% and over 55: 37%.
- ▶ Rewards Crowdfunding: under 35: 22%; 35-54: 43% and over 55: 35%.

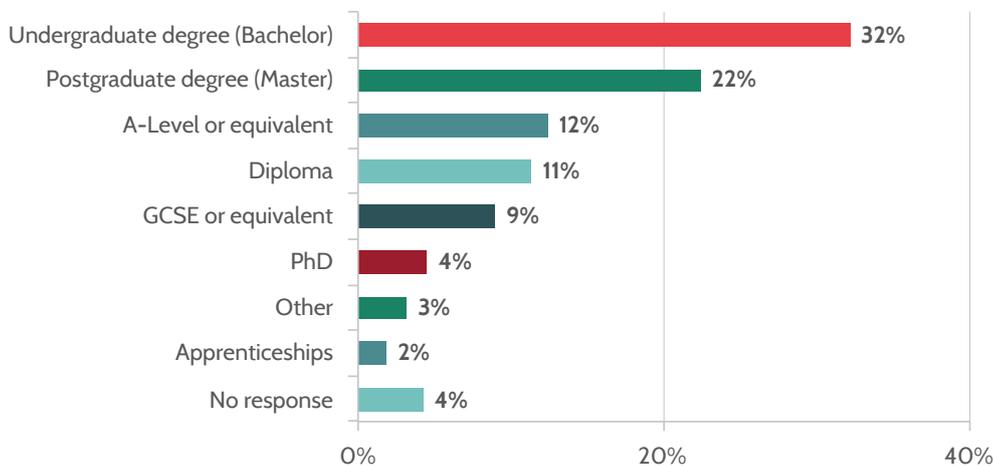
Although almost three-quarters of survey respondents across all models surveyed tended to be 45 or older (NESTA, 2014: 16), the emergence of crowdfunding as an investment phenomenon, which is embedded in social media and online transactions, may mean a continuing growth of the alternative finance market will attract a younger investor community.

Educational profile of community shares investors

Over half of investors were educated to at least degree level, which is a higher proportion of graduates than the general population: (38% in 2013) (Office for National Statistics, 2013).

Graph 14: What is your highest level of education?

Community shares investors (%)



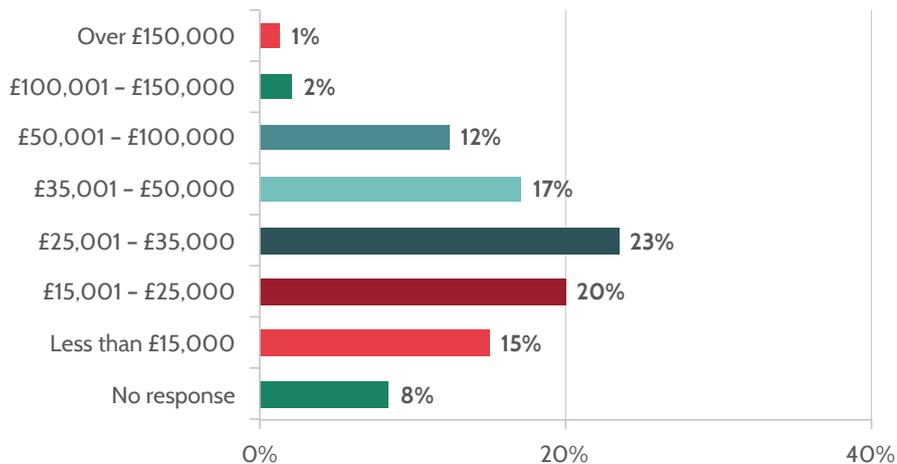
Source: NESTA /Cambridge University, August – September 2014
Base: Community Shares investors n=380
Q17. What is your highest level of education?

What is the Annual Income of Investors in community shares?

For the year ending 5 April 2014 median gross annual earnings for full-time employees (who have been in the same job for at least 12 months) were £27, 200 in the UK. A larger number of community share investors fall into the banding that contains this average than any other, and those earning this amount or less account for 68% of investors. Therefore those earning over £35,000 per annum only represent 32% of the investors in community shares responding to this survey.

Graph 15: What is your annual income in pound sterling?

Community shares investors (%)



Source: NESTA /Cambridge University, August - September 2014

Base: Community Shares investors n=380

Q18. What is your annual income in pound sterling?

This income level was represented to differing degrees in other types of funding model:

- ▶ Rewards based crowdfunding: 19% of investors in average income band and 47% in bands containing lower than average incomes.
- ▶ Donation Crowdfunding : 6% of investors in average income band and 47% in bands containing lower than average incomes.
- ▶ 20% of those investing in Peer2Peer consumer lending in average income band, and 37% in bands containing lower than average income.
- ▶ Equity Crowdfunding: 15% of investors in average income band, and 52% had an income in bands containing values higher than average incomes (31% earning £50,000-£100,000).
- ▶ 22% of investors in debt-based securities were in the average income band, and 50% had incomes in the bands representing higher than average incomes.
- ▶ 53% of those using Peer2Peer Business lending had an income in the banding containing values higher than the average income.

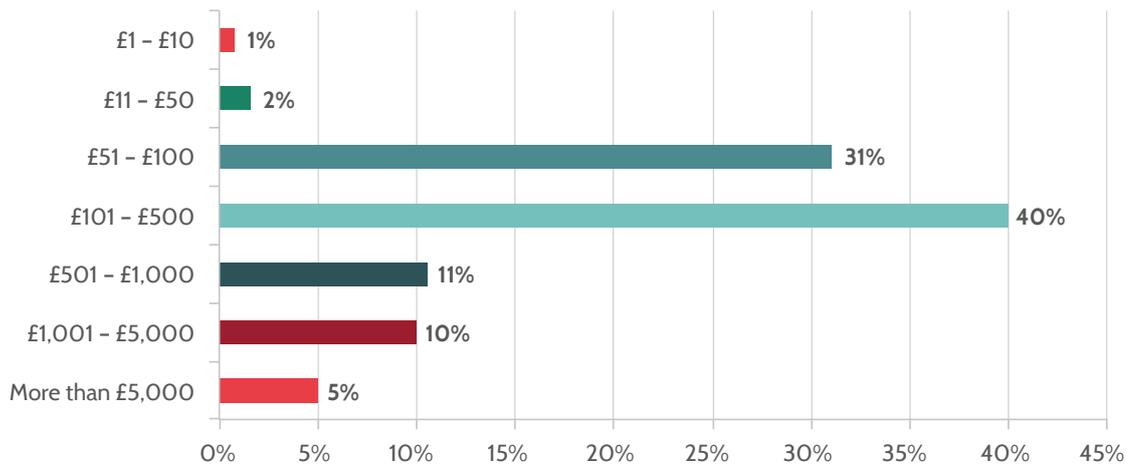
Therefore, investors in rewards crowdfunding and donation crowdfunding appear to have the most similar income profiles to investors in community share offers.

How much do community shares investors invest?

Similarly, survey respondents were asked how much money they had used to invest in community shares.

Graph 16: How much money have you used to fund/invest in community shares?

Community shares investors (%)



Source: NESTA /Cambridge University, August – September 2014
Base: Community Shares investors n=380
Q1. How much money have you used to fund/invest in community shares?

Investments worth between £101 and £500 was most popular among community shares investors. This is in line with the average investment on the platform of £368 (see below). As 77% of respondents had invested in a single share offer, the survey suggests that the average investor invests once in a single share offer at around the average investment amount.

Average investments and transactions by funding model

Model	Average amount raised	Average number of investors	Average individual investment
P2P business lending	£73,222	796	£91.99
P2P consumer lending	£5,471	201	£27.22
Equity crowdfunding	£199,095	125	£1,592.76
Rewards crowdfunding	£3,766	77	£48.91
Donation crowdfunding	£6,102	55	£110.95
Invoice trading	£56,075	7	£8,010.71
Pension-led funding	£70,257	n/a	n/a
Debt-based securities	£730,000	587	£1,243.61
Community shares	£174,286	474	£367.69

Source: NESTA /Cambridge University, August – September 2014

In comparison to other alternative finance products, investments in community shares are considerably higher than other transactions but lower than investments in other equity platforms. For example:

- ▶ The average loan in Peer2Peer business lending is £91.95, but the average portfolio of each lender is £8,137 spread over a median of 52 loans.
- ▶ The average transaction in Peer2Peer consumer lending reported was £27.10, but the average portfolio size per lender £5,606.
- ▶ The average investment in reward-based crowdfunding was £48.92;
- ▶ The average donation through donation-based crowdfunding was £110.54, and
- ▶ The average investment in equity-based crowdfunding is £1,599.

The average number of investor transactions required for a successful share offer, loan, donation or crowdfunding event to take place also differs between models. Investments in community shares occupy a middle range between the smaller rewards crowdfunding and micro-loan models and the larger equity and security based models.

What do investors in community shares use to invest?

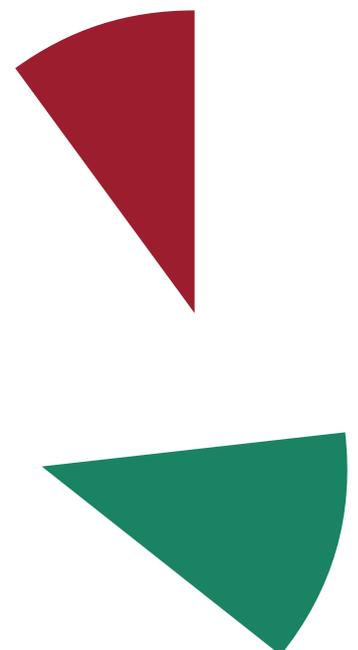
Investors were asked where the money came from they used to invest in community shares – in terms of their personal and household budgets.

Investors in community shares are overwhelmingly using their savings funds as the resource for funding this investment (56%), followed by money they would use for day to day spending (29%). This trend was also found amongst investors in Peer2Peer Consumer lending (64%), although only 3% of these investors would use money for day to day spending as their investment fund and 37% using money set aside for investment as the next most popular option.

A large proportion of investors in debt-based securities were also using their savings as the source of investment funding (55%) – these products are similar to purchasing bonds (although the rights and obligations differ).

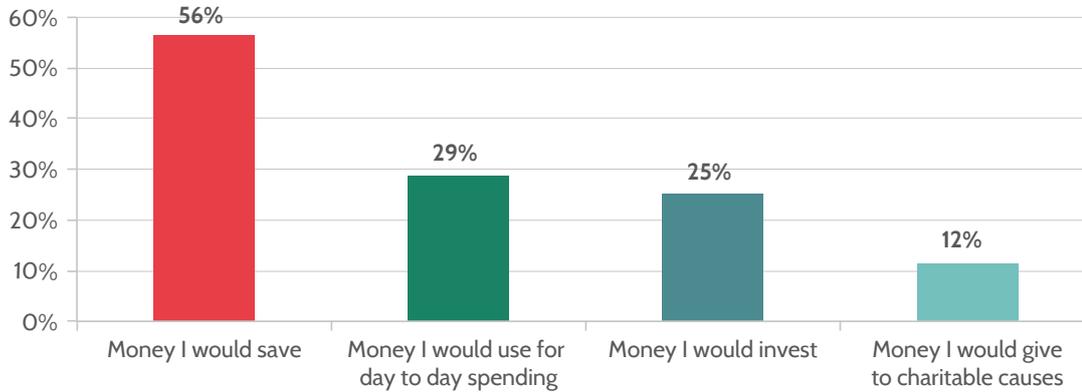
Respondents that use crowdfunding models gave quite varied responses to this question, with the inclusion of money that would be used for charitable giving for those investing in reward and donation based crowdfunding illuminating the different basis of models to equity-based crowdfunding:

- ▶ Equity-based crowdfunding (Money I would invest = 68%; Money I would save: 44%)
- ▶ Reward-based crowdfunding (64% would use day to day money, 22% savings and 21% money for charitable purposes)
- ▶ Donation-based crowdfunding (63% day to day spending 23% savings and 23% charitable giving).



Graph 17: When you budget for investing in community shares crowdfunding, where does the money come from?

Community shares investors (%)



Source: NESTA /Cambridge University, August – September 2014

Base: Community Shares investors n=380

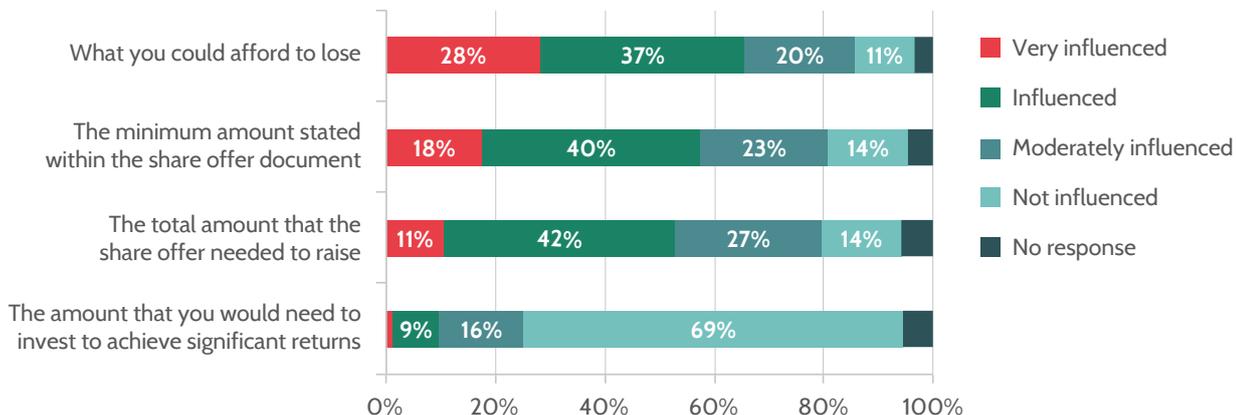
Q8. When you budget for investing in community shares crowdfunding, where does the money come from?

The survey tried to gain insight into the judgement used by investors when deciding how much to invest in alternative finance models by asking them which factors influenced their decision to invest. For the survey of investors in community shares this question considered the personal factors related to the investor and the presentation of the offer by the society.

Individual finance issues were a strong influence as were the minimum and total amount stated in the share offer document. The importance of these considerations demonstrates the level of risk investors are willing to tolerate, which could be categorised as personal financial risk weighed against project failure risk, and the limited importance of the return profile for investors in community share offers.

Graph 18: When investing in community shares, which factors influence how much you decide to invest?

Community shares investors (%)



Source: NESTA /Cambridge University, August – September 2014

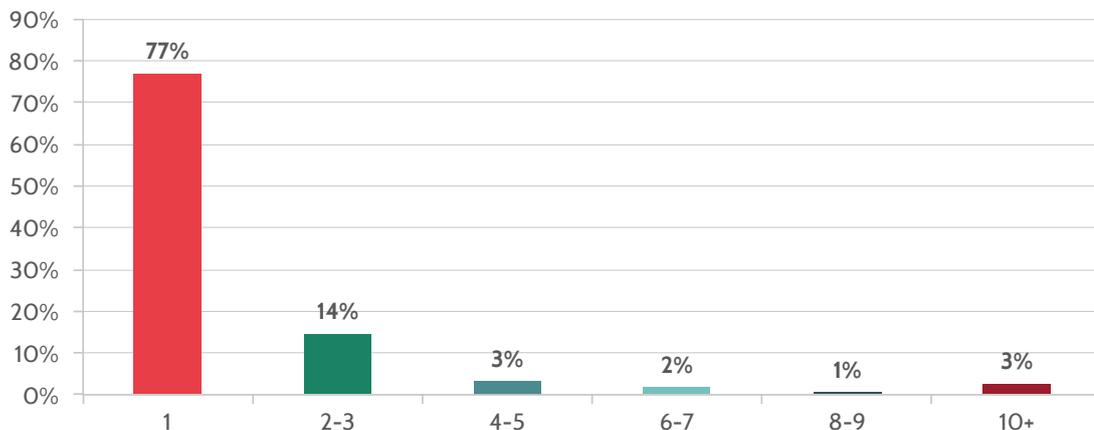
Base: Community Shares investors n=380

Q9. When investing in community shares, which factors influence how much you decide to invest?

How many projects do investors fund?

Graph 19: How many community shares projects have you funded in total?

Community shares investors (%)

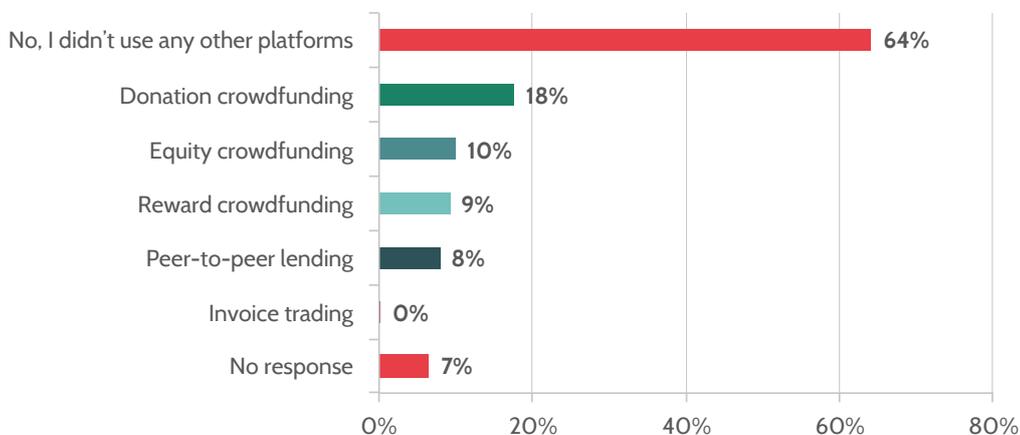


Source: NESTA /Cambridge University, August – September 2014
Base: Community Shares investors n=380
Q2 How many community shares projects have you invested in in total?

This response demonstrates that community shares investors are unlikely to be ‘serial investors’ and their association with a single investment indicates a strong attachment to a particular society or enterprise. The large number of community share investors who indicated they did not use other models of alternative finance also underlines this suggestion (data is not available for this question across the different models of alternative finance reviewed in The UK Alternative Finance Report 2014).

Graph 20: Have you funded any projects/businesses on other crowdfunding or alternative finance platforms?

Community shares investors (%)



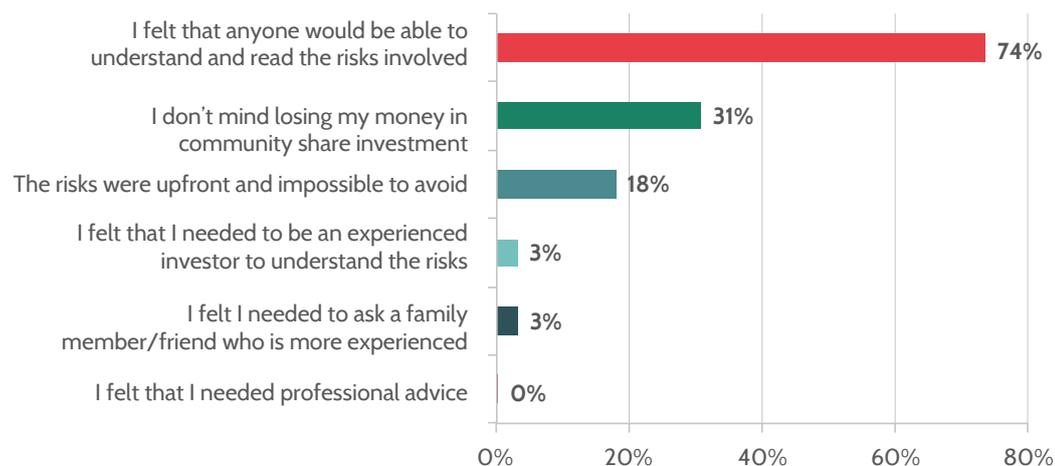
Source: NESTA /Cambridge University, August – September 2014
Base: Community Shares investors n=380
Q15. Have you funded any projects/businesses on other crowdfunding or alternative finance platforms? Please select all that apply.

Understanding of Risk

When asked how easy or difficult it was to understand risks involved, the large majority of respondents indicated that they felt that anyone would be able to understand the risks involved in investing in community shares, reflecting the fact that share offers are aimed at stimulating community interest and therefore are often aimed at people with little or no knowledge of equity investment, or the risks associated with this type of finance.

Graph 21: How easy or difficult was it for you to understand risks involved in investing in community shares?

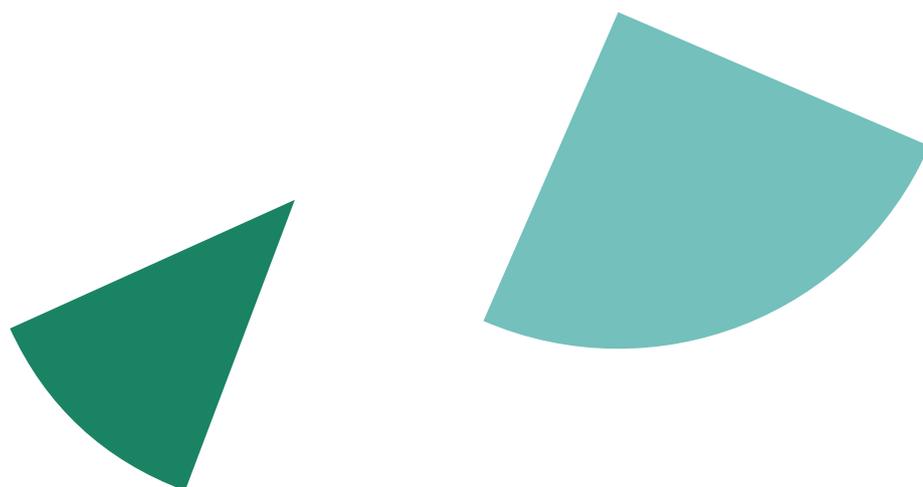
Community shares investors (%)



Source: NESTA /Cambridge University, August – September 2014
 Base: Community Shares investors n=380
 Q10. All investments involve a level of risk for your money. From your experience, please tell us how easy or difficult it was for you to understand risks involved in investing in community shares?

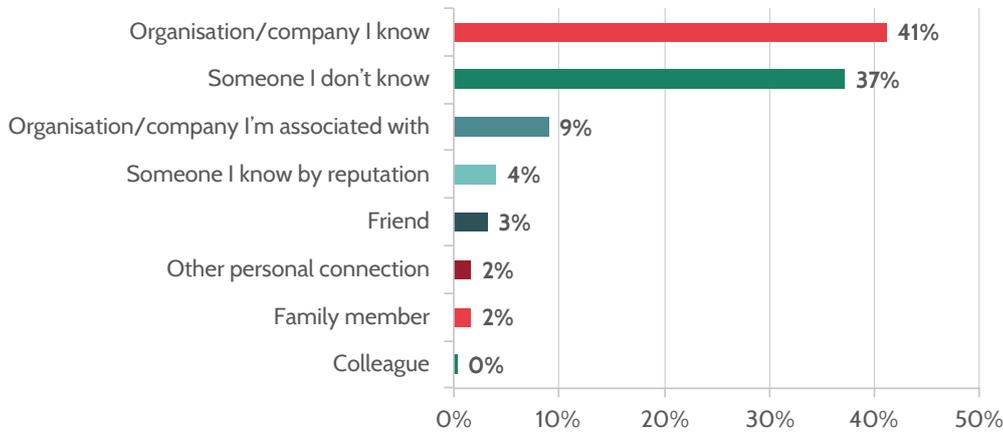
What are the motivations of investors?

Community shares are not considered to be a purely financial investment, as investment in a society is primarily made for mutual, community, or charitable benefit. This consideration was reflected in the opinions of survey respondents, of whom 62% had some a personal connection or association to the share offer(s) they had invested in through an organisation or person.



Graph 22: The first time you funded a community shares crowdfunding project was it run by a...

Community shares investors (%)



Source: NESTA /Cambridge University, August – September 2014
Base: Community Shares investors n=380
Q3. The first time you funded a community shares crowdfunding project was it run by a...?

Investors were asked to rank the importance of a series of factors in their decision to invest in organisations/projects. The highest ranking factors for those investing in community shares were using their money to make a difference, doing social or environmental good, creating a stronger community and investing locally.

Graph 23: How important are the following in your decision to invest in organisations/projects through community shares crowdfunding?

Community shares investors (%)



Source: NESTA /Cambridge University, August – September 2014
Base: Community Shares investors n=380
Q6. How important are the following in your decision to invest in organisations/projects through community shares crowdfunding?

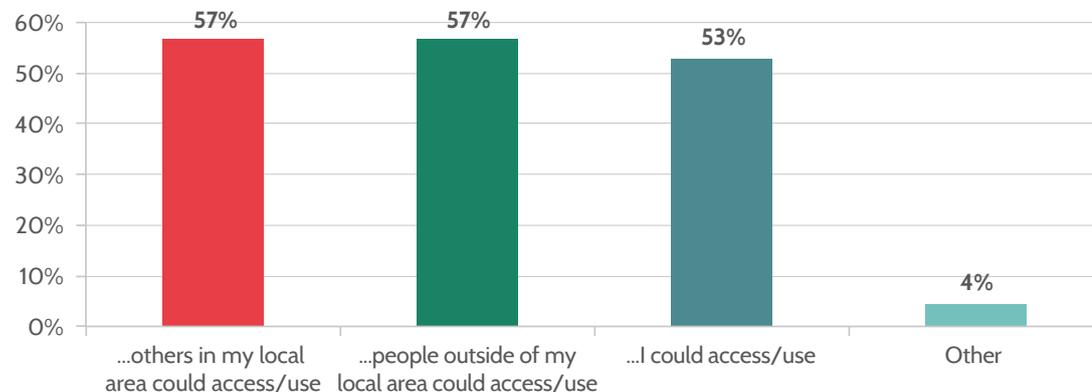
Some comparisons can be made to the motivations of investors in other models of alternative finance. The local connection to a specific organisation or person was not explored in the motivations of investors in Peer2Peer lending, but these investors were asked how important “knowing my money is helping someone” was – 15% stated very important, and 36% stated this was important.

Investors in equity-based crowdfunding appear to have an interest-based motivation: investing in industries I know/care about was ranked as important or very important by 66% of respondents, but investing in local businesses was only important or very important to 33% of respondents, suggesting this interest is not necessarily a locality based interest, which appears to be more a feature of community share offer investment. For those investing in reward-based crowdfunding supporting someone they knew (friends and family) was ranked as very important or important by 51% of respondents and supporting a local project or business by 62%. These figures were broadly similar for those investing in donation-based crowdfunding (69% and 61%), although the personal connection is higher in the model.

Investors in community share offers were asked about the nature of their connection to the community share project they had invested in, i.e. the relative importance of direct personal benefit and enabling others within the community to receive benefits. The responses indicate investors were motivated by ensuring that the society receiving the investment was able to achieve its goals as a means of securing both personal individual benefits and to provide services or facilities that could be used by other people within and outside their locality. This also reinforces the point made above – that community shares are not seen as an instrument for achieving personal financial gain, but have mutual and community purposes.

Graph 24: What is your connection to the community shares project(s) you have funded? It is a creation/product/service...

Community shares investors (%)

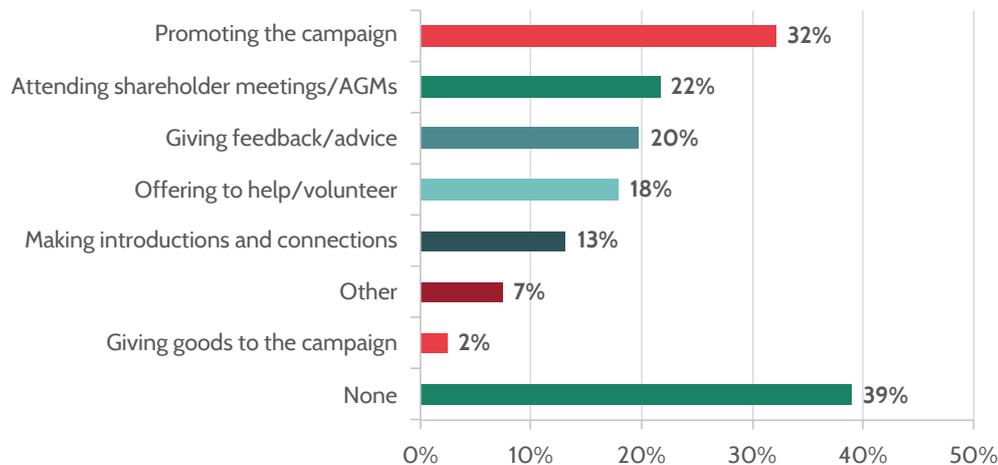


Source: NESTA /Cambridge University, August – September 2014
 Base: Community Shares investors n=380
 Q7. What is your connection to the community shares project(s) you have funded?

To test the assumption that investing in a community share offer often involves providing more than financial contributions, investors were asked whether they supported the enterprise they invested in in other non-financial ways.

Graph 25: Did you support community shares crowdfunding campaigns in any of the following ways beyond funding them?

Community shares investors (%)



Source: NESTA /Cambridge University, August – September 2014

Base: Community Shares investors n=380

Q12 Did you support community shares crowdfunding campaigns in any of the following ways beyond funding them? Please select all that apply.

A significant majority of investors indicated a multi-faceted relationship with the society that they have invested in, often seeking to get involved in the management and governance of the enterprise. Contrastingly, the number of investors who indicated they had no further involvement beyond investing in share capital could also be seen as surprisingly high, indicating that investors in community shares may consist of different categories of investor; one category could be a local cohort that is closely involved in the evolution and running of the society, and another group motivated by the social benefits but potentially living outside the local area or less likely to get involved on the ground.

Interestingly survey respondents who used donation-based crowdfunding also reported high levels of involvement with the project they were investing in, with 90% promoting the campaign; 29% giving feedback and advice to the campaign; 27% offering to volunteer, and 27% making introductions and connections on behalf of the project.

To understand the relative importance of financial and alternative benefits of investing in community share offers, investors were asked to consider the important of a range of factors likely to be involved in each investment decision. The responses given indicate that financial returns are a low priority compared to the ease of the investment process and non-financial benefits. The prospect of getting their investment back (i.e. being able to withdraw share capital) was ranked as important more often than receiving interest or dividends on investments, supporting the idea that stability and longevity are more important than short term returns for investors in community shares.

Graph 26: As a funder/investor in community shares, how important is the following?

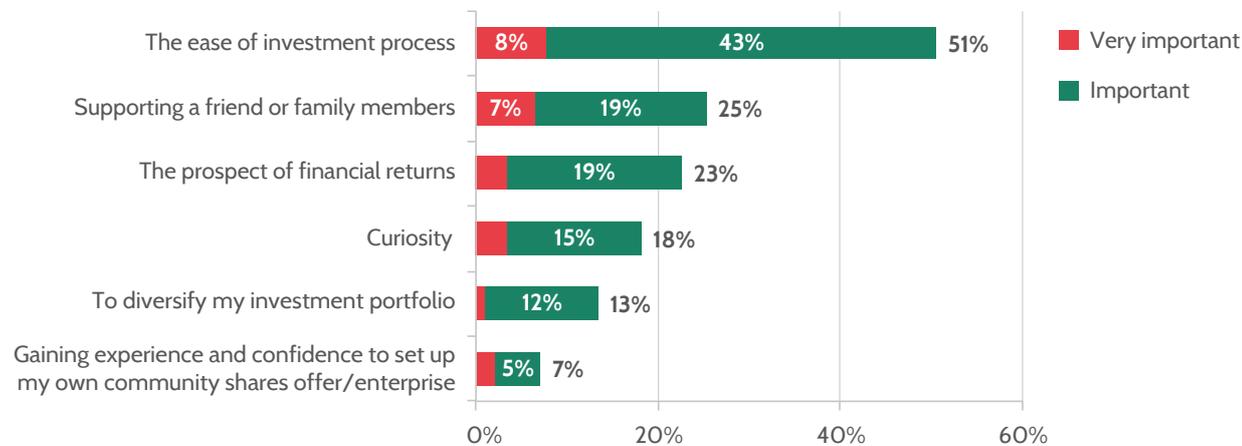
Community shares investors (%)



Source: NESTA /Cambridge University, August – September 2014
Base: Community Shares investors n=380
Q11 As a funder/investor in community shares, how important is the following?

Graph 27: How important are the following in your decision to invest in organisations/projects through community shares crowdfunding?

Community shares investors (%)



Source: NESTA /Cambridge University, August – September 2014
Base: Community Shares investors n=380
Q6. How important are the following in your decision to invest in organisations/projects through community shares crowdfunding?

The ease of the investment process was also ranked as at least important for 86% of investors in equity-based crowdfunding, and supporting a friend of family member ranked as roughly as important (28%).

Curiosity ranked highly for investors in the equity-based crowdfunding model (50% ranked it as at least important); 31% of those survey respondents investing in reward-based crowdfunding; and 28% of respondents using donation-based crowdfunding platforms. The lower level of curiosity associated with community share offers is probably linked to the lower levels of awareness amongst SMEs and the general public about this financial instrument – only 7% of SMEs surveyed indicated they were aware of them.

Summary of Survey Findings

The alternative finance market is a rapidly growing and evolving area of financial activity seeking “to revolutionise banking, investing and giving by using technology to simplify the links between those who want to invest money and those who need it” (Stian Westlake, Executive Director of Policy and research, NESTA, 2014: 4). While the investment models within the sector may share this general purpose, the recent survey of the sector reveals they vary in the types of investor-fundraiser relationships, the types of transactions involved and the motivations of the investors using them in relation to the risks and rewards they expect.

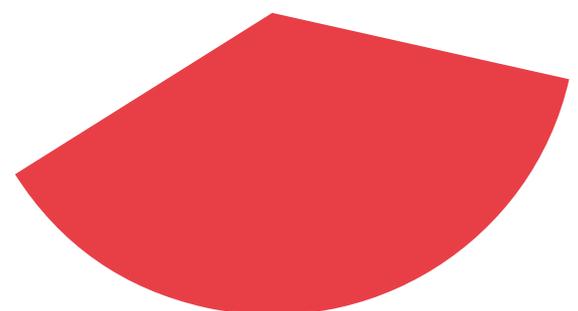
Community share investments share different features with other alternative finance models – it has a similar social/ethical risk profile as reward and donation based crowdfunding but it uses a different model to crowdfunding as it is a longer term more stable form of investment than these models. It is therefore more similar to equity-based crowdfunding in this manner, although on a smaller scale in terms of investment sought and investments made. They therefore represent a small but interesting component of the alternative finance community.

The investors profile revealed by the survey data indicates that community shares investors are similar to the overarching investor type identified in the alternative finance report in being older but they appear less likely to be serial investors than investors in other models. Two types of alternative finance model can be broadly distinguished: higher value loans and equity investments in which financial return is a relatively high priority, although not the only priority (particularly when compared with investor motivations in standard financial products), and lower value crowdfunding models in which the connection to and involvement in the project is of higher importance and the prospects of a return on investment may be low. Investors in community shares appear to sit somewhere between these two types: differing from both the equity and lending investors in the importance attached to a direct connection to the project being funded, but investing larger amounts per transaction than the crowd-funders with similar motivations.

Community share investors responding to this survey more often fell into the average income category and were overwhelmingly using their savings to invest, indicating they are ‘normal’ people who don’t invest regularly, or have access to financial advice. They were typically well-educated and in management or professional jobs, although the alignment with average and lower incomes indicates these may be in the public sector, part-time workers or retired people.

Two of the types of investor in community shares identified by the Wessex Community Investor Research appear to be present amongst the survey respondents: the local community investor who lives near to the project and is motivated by social benefits, and the community of interest investor, interested in the purposes and benefits of the project although not living nearby or connected by a sense of location (indicated by the 39% of investors who reported no engagement with the project beyond purchasing share capital).

The findings of the NESTA survey also echo the approaches to risk and decision-making regarding investing in community shares that were identified in the Wessex report, which found that this was a matter of what people could afford to lose and based on careful reading of the offer documentation and knowledge of the individuals and organisations involved.



Conclusions

We hope this report has gone some way to help bridge the gap between the rhetoric of social investment leaders and the needs of community enterprise, as observed in the introduction.

This report has shed light on what is a fast-growing, somewhat volatile, and diverse market. Yet, possibly the important finding is that since 2009, community shares have enabled more than 60,000 people to become direct investors of community enterprise. The majority of these people had never invested before, but are now active members of ventures that are now running vital assets and services from shops, pubs, farms and sports clubs.

This is a promising trend, but the data also identifies the challenges community enterprises face across a number of sectors in raising the finance they need to start-up and grow. This is most evident with the level of activity in 2014, in which growth tailed-off and several sectors saw a fall in the number of share offers coming forward.

Signs for 2015 are looking more encouraging with more share offers at this stage in the year than ever before. Furthermore this year sees several initiatives and programmes focusing on developing community enterprise, such as Big Potential, The Power to Change and DCLG's latest Community Rights programmes, get underway.

This is even more encouraging based on why people are investing. The investor survey demonstrates the overwhelming motivation of investors to support the society's social purpose. This is an important distinction of the community shares market when compared to equity crowdfunding in particular, in which financial return is paramount.

However, like equity crowdfunding there are risks. But unlike public share offers in companies, which are regulated by the Financial Conduct Authority, community shares are not regulated. This makes it simpler and cheaper for a society to make a community share offer. But it also means there is no protection for people from falling victim to scams or unfair and misleading offers. There is also the risk that the share offer has been poorly developed and not given enough thought and attention.

This is why the Community Shares Unit has developed the [Community Shares Standard Mark](#). The Mark is awarded to community share offers that meet our standards of good practice.

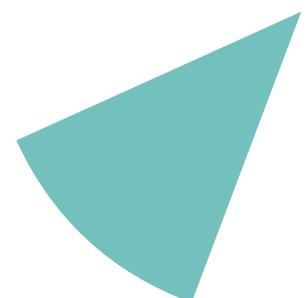
The Mark is not a guarantee that the society will be successful. Instead, the Mark is a sign that the society has been independently assessed to have adopted good practices in developing the offer, and is committed to these standards.

The Community Shares Standard Mark is a voluntary scheme. Because the Mark is voluntary, our powers are limited. However, we feel that rather than resorting to some form of enforcement, central to promoting public confidence is the ability to provide accurate information about the market as a whole.

This report is the beginning of these efforts and we will look to improve and build on this work as we go forward.

Community Shares Unit

The Community Shares Unit is supported by the Department for Communities and Local Government (DCLG) and Department for Energy and Climate Change (DECC) until March 2016 and is delivered in partnership by Co-operatives UK and Locality. Modelled on the highly successful Asset Transfer Unit within Locality, the new unit works with partners to develop standards of good practice, encourage policy reforms and raise awareness to support the growth of community shares.



It acts a central reference point for market intelligence, providing the latest information on community share activities nationwide, as well as producing regularly-updated guidance materials.

The unit also operates as a dynamic hub for support, building relationships with networks and organisations to signpost communities, investors and other interested parties to the most appropriate forms of advice and assistance to develop new share offers and support existing ones.

Finally, it acts as a strong platform for profiling the community share model, raising awareness of the value of the approach to new entrants and facilitating peer support and networking to those already involved in community shares.

Acknowledgements

We are very grateful for the valuable support we have had from Lisa Dale-Clough and Kate Barker of Manchester Business School for leading the design and delivery of the investor survey and providing the subsequent analysis which formed the basis of this section of the report.

Thanks also to Nesta and Cambridge University for involving us in the wider Understanding Alternative Finance Study, providing us with the opportunity to compare and contrast the responses of community shares investors with funders from other platforms in the UK.

Finally, we would like to thank all those communities, practitioners and government officials who have helped inform the priorities for this research.

Notes on the Community Shares Directory

The Community Shares Directory is a listing of registered co-operatives and community benefit societies. Our definition of community shares is where societies have raised at least £10,000 of withdrawable, non-transferable share capital from at least 20 members. Going forward the directory will be restricted to asset locked societies.

We categorise each entry according to the status of the enterprise. This refers to whether the society is:

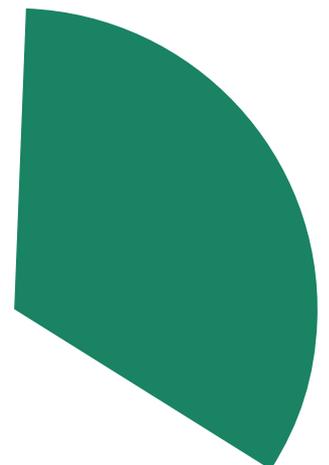
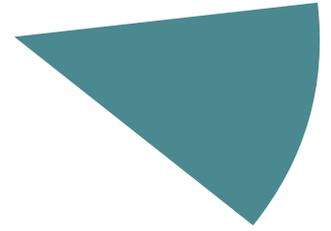
- ▶ 'Post-launch' – has issued one or more share offers
- ▶ 'Pre-launch' – registered in the last two years and has the ability or is planning to launch a community share offer

The aim of the directory is to provide more openly accessible information about societies financed through community shares. The directory contains some financial information on societies that have been trading for more than three years, drawn from annual returns made by societies to the FCA.

To the best of our knowledge all the pre-launch societies intend to launch a community share offer at some point in the future, although it can take several years for some societies to become investment-ready.

We have limited financial data for post-launch societies that issued offers in 2013 or later – our records are based on what societies have told us or information that has been published elsewhere. For societies that launched share offers in 2012 or earlier, we have used annual return data to obtain data on the amount of share capital raised and number of members. Estimates have been used for more recent shares offers, based on historic activity.

The directory has been compiled using secondary research methods. Whilst every effort has been made to ensure the accuracy of the data, we cannot accept any liability for any loss or damage whatsoever resulting from reliance on this information.



Find out more at www.communityshares.org.uk
or get in touch at communityshares@uk.coop
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