Understanding a maturing community shares market

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Contents

#comshares

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Less than 10 years ago, community shares were almost unheard of. Yet since 2012, £155 million has been raised by 104,203 people to save and create more than 440 vital spaces and services.

Community shares is a flexible and effective way to raise finance – benefiting businesses, investors and the wider community.

An innovative, accessible investment model, community shares has become a popular approach to raising finance. It is unique to co-operative and community benefit societies – businesses owned and run by local communities across the UK.

Using this model, communities are able to finance new renewable energy schemes. They save pubs, shops and football clubs. They transform community facilities, restore heritage buildings – and so much more!

By investing, individuals can support business and organisations important to themselves and their communities *and* become co-owners of the business in the process.

Of the businesses who have raised finance through community shares, 92% are still trading. This demonstrates that community shares help make businesses more resilient.

This report explores the success of the community shares model and makes recommendations for the future. We present:

- The most authoritative collation of data on community shares.
- Findings from detailed surveys of 104 societies who have raised money through community shares and 534 community shares investors from across the UK.

£155m+

raised through community share offers by

104,203

investors

"Community shares are an ethical investment which combines community, affordability and sustainability."

Yorspace Community Land Trust

585

community share offers launched by 440 businesses –

92%

of which are still trading today

Our extensive review of the community shares market reveals...

FINDING #1

Community shares create and sustain successful businesses.

Community shares are a flexible and effective way to raise finance – benefiting businesses, investors and the wider community. 85% of businesses say that using community shares has had a positive impact on the their trading performance.

FINDING #2

Community shares make investment accessible – giving people a stake and say in what matters to them.

Investments in community share offers can be from as little as £10, with an average investment of £395. People invest in the businesses they care about; they receive a financial return and a stake in the business.

FINDING #3

Community shares has significant potential to reduce inequalities and level up society.

80% of people invest in community share offers because of the wider social or environmental benefits of the organisation – and 78% have invested outside of their own locality. Therefore, community shares has the potential to be part of a much broader approach to levelling up society and tackling inequalities.

FINDING #4

Institutions, funders and governments play a key role in growing the community shares market.

Community shares work best when part of a 'blended' approach for raising finance. For every £1 invested by an individual in a community share offer, at least £1.18 of additional funding has been leveraged through grants, loans and institutional investment.

RECOMMENDATION #1

More specialist support for communities.

Those advising and supporting communities and business should do more to help people explore community shares and the wider co-op option for achieving their goals. They should ensure communities have access to specialist advice and support to access and use community shares effectively.

RECOMMENDATION #2

More support for Community Shares Standards.

To protect investors, governments and funders should support the community shares standards framework – an existing network of key organisations and licensed community shares practitioners.

This network should consider ways to address barriers to using community shares.

RECOMMENDATION #3

More community-led economic development.

Communities in deprived areas, or addressing specific challenges, should be effectively supported to use community shares; to understand the scope; and to invite investment from further afield without compromising their mission or governance.

RECOMMENDATION #4

More institutional investment in community shares.

Governments (national and local), funders and impact investors should channel more money into institutional investment in the community shares market.

Community shares are a flexible and effective way to raise finance – benefiting businesses, investors and the wider community.

Community competitive advantage

The first five years are notoriously difficult for new businesses. Just 42% of new companies make it through to the end of year five. In stark contrast, 76% of co-op start-ups are still flourishing after reaching that same milestone.[1]

This report reveals that community ownership increases survival rates even further, with 92% of businesses that have raised capital through community shares still trading today.

85% of businesses say that running a community share offer has had a positive impact on financial performance. From an increase in sales and customers, to gaining access to other sources of revenue.

People want to see the businesses they've invested in thrive and this creates a significant community competitive advantage.

The majority of funds raised through community shares have been raised in the energy, food, farming and retail sectors. There's also been growth and innovation in other sectors including social care, housing and media.

[1] The Co-op Economy report 2020 www.uk.coop/economy

92%

of businesses that have raised capital through community shares are still trading today

85%

say that running a community share offer has had a positive impact on financial performance

"People come in and say with pride 'I own a share in this shop'. We were overwhelmed by how many people wanted to save the shop and saw its potential."

Lucy Rock, George Street Community Bookshop, Glossop

A significant endorsement of the community shares model is that organisations are going back to community shares to raise more money for different projects or overall growth.

Of the organisations that have run a share offer

36%

are planning another share offer –

24%

have already done so!

"Our first community share offer enabled us to finance the installation of solar panels in North Kensington and create a strong and diverse community of investor members. We are excited to repeat the experience in 2020 and to grow our community with a more ambitious project!"

Éva Goudouneix,
North Kensington Community Energy, London

People are investing more, in more share offers

There is strong evidence to suggest there is a growing investment pool for communities to tap into.

Investors are investing in more share offers. **36% of people have already invested in more than one offer – up from 23% in 2015**.

Research from Community Shares Wales also reveals that, from a sample of 194 investors, 66% are interested in investing in further offers.

33% of investors have invested £1,000 or more in community shares, compared to just 15% of investors in 2015.

Certain tax reliefs[2] have encouraged investors to invest more. Of those influenced by the offer of tax relief, 70% have invested more than £1,000 in community shares overall and 24% have invested more than £10,000.

In contrast, 71% of those not influenced by tax relief invested less than £1,000 in total and only 5% invested more than £10,000.

[2] These tax reliefs include Social Investment Tax Relief (introduced in 2014) which allows individual investors to claim income tax relief of up to 30% of the amount they invested.

Flexible and friendly finance

Community share offers allow organisations to raise **patient and flexible capital**.

Patient capital means there are no fixed payback dates with community shares – unlike debt in the form of loans or bonds.

Community shares is **flexible finance** because there is no fixed interest rate for the investment.

When a share offer launches, the offer document gives potential investors a forecast on interest payments and withdrawal terms.

Businesses issuing community shares often build in a period of time before any interest payments or withdrawals are made. This gives them the opportunity to get through the first few years of trading and start to turn a steady profit.

Community share offers give businesses the flexibility to adjust these terms.

The average interest rate on community share offers is 4.8%. Our survey showed that only 10% of organisations have been unable to afford the forecasted interest payments to date.

They have been able to reduce their interest rates however to keep trading and making an impact.

Community shares is capital at risk. This means investors could lose some, or all, of the money they invest. They can also withdraw some, or all, of their money in times of need (if the society can afford it).

Of the 8% of businesses accessing community shares which failed to survive – 32 societies in total – 10 were unable to return the capital raised.

Only 1.4% of the total raised to date has been lost or written off.[3]

4.8%

average interest rate on community share offers

RECOMMENDATION #1

More specialist support for communities.

Those advising and supporting communities and business should do more to help people explore community shares and the wider co-op option for achieving their goals. They should ensure communities have access to specialist advice and support to access and use community shares effectively.

Edinburgh Student Housing Co-operative is part of **Student Co-op Homes**, which raised £308,875 of community shares capital to buy more housing to set up student housing co-ops across the UK.

[3] This analysis was supported by Our Community Enterprise www.ourcommunityenterprise.co.uk

Investments in community share offers can be from as little as £10, with an average investment of £395. People invest in projects they care about; they receive a financial return and a stake in the business.

One member one vote, not one share one vote

Community shares is a way of raising finance unique to co-operative and community benefit societies – businesses owned and run by local communities across the UK. When people invest they also become a member or co-owner of the co-operative or community benefit society running the share offer.

They share the risks and they share in the rewards. Investors have an equal say in running the business and can even be elected to the board of directors.

Co-operative and community benefit societies are registered with the Financial Conduct Authority under the Co-operative and Community Benefit Society Act (2014). Societies are a recognised legal entity and provide limited liability to shareholders. Unlike companies, most societies attach voting rights to membership, not share capital, adopting the co-operative principle of **'one member one vote', not 'one share one vote'.**

Investors in community share offers are spread across the UK. While 80% of **angel investors**[4] are based in London and the South East,[5] community shares investors are more widely distributed.

Only 18% are in London and the South East.

The South West had the most community shares investors (30%).

[4, 5] Angel investors are individuals who make equity investments in private businesses with growth potential. They invest patient capital and often contribute to the business more directly, either by joining the board or providing skills and expertise to the business (The UK Business Angel Market: https://bit.ly/37pEUFO)

[6] Community Shares Wales ran a survey of community shares investors in 2019 with 194 responses. This impacted our response rate so our figure will be an underestimation of the % of Welsh investors.

% of investors by UK region and nation

A-typical investors

Investments in community share offers can be from as little as £10. Crowdfunder.co.uk's average community shares investment is £395, while the average *donation* made on the platform is £40.

Investors in community shares are not necessarily typical investors. We found that **41% of community shares investors are female in comparison to just 9% of angel investors.**[7]

56% of people investing in a community share offer earn £35,000 or less – the UK average salary – while only 4% earn over £100,000.

40% of investors said a lack of disposable income is the main barrier to investing in more community share offers.

52% of investors either didn't know their net worth or assumed it would be less than £250,000.[8]

For reference, high net worth investors (as defined by the FCA) have to earn more than £100,000 per annum and have a net worth of over £250,000 (not including their house value).[9]

Community shares is just part of making the overall business a success. These businesses bring people together from different backgrounds, who volunteer time and energy as well as investing financially.

"Everyone has been able to get involved. People who haven't been able to afford a share have done things for free, such as local bands putting on gigs to help raise funds."

Bethan Evans, Tafarn y Heliwr, Wales

The ***Tafarn yr Heliwr pub***, Nefyn raised £82,000 from over 500 investors from a community of 2,000 residents – an average investment of £164.

Ensuring community shares are accessible to everyone

Community shares investors are predominantly white (92%), which is a higher percentage than reported in the UK 2011 Census (86%).[10]

In addition, 73% are university graduates, over half (54%) are homeowners and more than half (54%) are employed. A further 36% are retired – with one in three investors being over 65. Only 4% of investors are under 35.

Community shares investors may not fit the stereotypical high net worth investor profile, but the majority benefit from other structural privileges such as attending university or owning their own home.

Of society respondents who provided investor demographic data as well (a smaller sample of 49 respondents), we found that 98% were white and 37% were female.

Co-operatives UK is committed to understand the demographics of societies themselves and will canvas this information through a co-op census in 2021. Further research could then seek to address structural barriers to engaging with community shares.

7 The UK Business Angel Market: https://bit.ly/37pEUFO

8 In the survey we asked for an estimation of investors' net worth based on the value of their assets (including their house value) minus any liabilities.

9 Certified high net worth investor https://www.handbook.fca.org.uk/handbook/glossary/G3060.html

10 Office for National Statistics: https://bit.ly/3j9ua0k

Protecting investors

The Financial Conduct Authority does not approve or regulate community share offers.

In this unregulated market everyone must feel confident in their community shares investments.

The **Community Shares Standard Mark** is awarded to community share offers that meet national standards for best practice.

These standards ensure that the share offer and any potential risks are clear and easy to understand and investors are provided with all the facts they need to make an informed decision.

The Standard Mark is awarded by licensed community shares practitioners who are accredited by the Community Shares Unit.

Find out more at:
www.communityshares.org.uk

Community Shares STANDARD

"I didn't have enough money so I cut back on my weekly shop to afford to put in."

Anonymous investor,
Friends of Stretford Public Hall,
Manchester

78%

of societies believe that the Standard Mark gives investors more confidence in their share offer

RECOMMENDATION #2

More support for Community Shares Standards.

To protect investors, governments and funders should support the community shares standards framework – an existing network of key organisations and licensed community shares practitioners.

This network should consider ways to address barriers to using community shares.

3. Community shares has significant potential to reduce inequalities and level up society

80% of people invest in community share offers because of the wider social or environmental benefits of the organisation – and 78% have invested outside of their own locality. Community shares has the potential to be part of a much broader approach to levelling up society and tackling inequalities.

Why do people invest in community shares?

While we explored the benefits for organisations in Section 1, our research shows that **people investing in community shares are more motivated by the prospect of social returns than financial gains.**

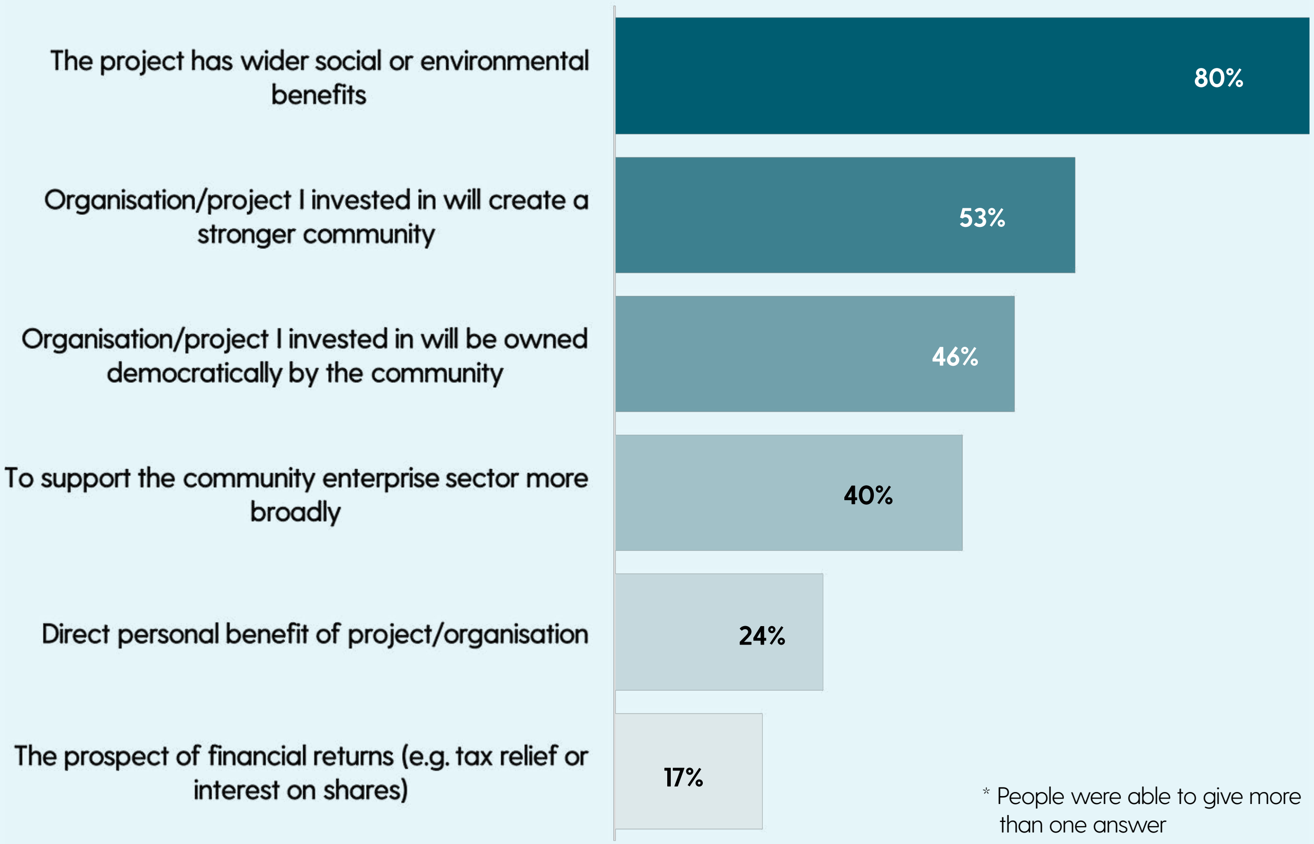
80% of people invest because of the wider social or environmental benefits of the project or organisation. 53% felt the share offer would create a stronger community.

Less than 20% stated the prospect of financial returns as a reason for investing.

"I invested in the community share offer because I wanted to keep an important music venue open that supports young musicians."

Anonymous investor
The Exchange, Bristol

Top reasons for investing in community shares*



* People were able to give more than one answer

Community shares can reduce inequalities and level up society

There is significant evidence on the role of community shares as a useful tool in local, place-based economic development. Community shares can also be part of a much broader approach to **levelling up society** and tackling inequalities. Levelling up society is currently understood as tackling **regional inequality** by investing in 'left behind' areas across the country.

This section looks at a more holistic definition of levelling up which takes into account relative levels of wealth and deprivation as well as the geographic reach of community shares.

Community shares is a practical mechanism for levelling up society, not just in geographic terms but also in tackling socio-economic inequalities.

Our research uses the **indices of multiple deprivation** (IMD)[11] to assess the relative wealth of investors and organisations running community share offers.

Indices of multiple deprivation (IMD) are widely used datasets within the UK to classify the relative deprivation of small areas. Multiple components of deprivation (income, education, health etc.) are weighted with different strengths and compiled into a single score of deprivation. A score of 1 is the most deprived, 10 is the least deprived.

Over three times as many investors (17%) are from the most affluent areas of the country (IMD 10) compared to just 5% of organisations running share offers in those same areas.

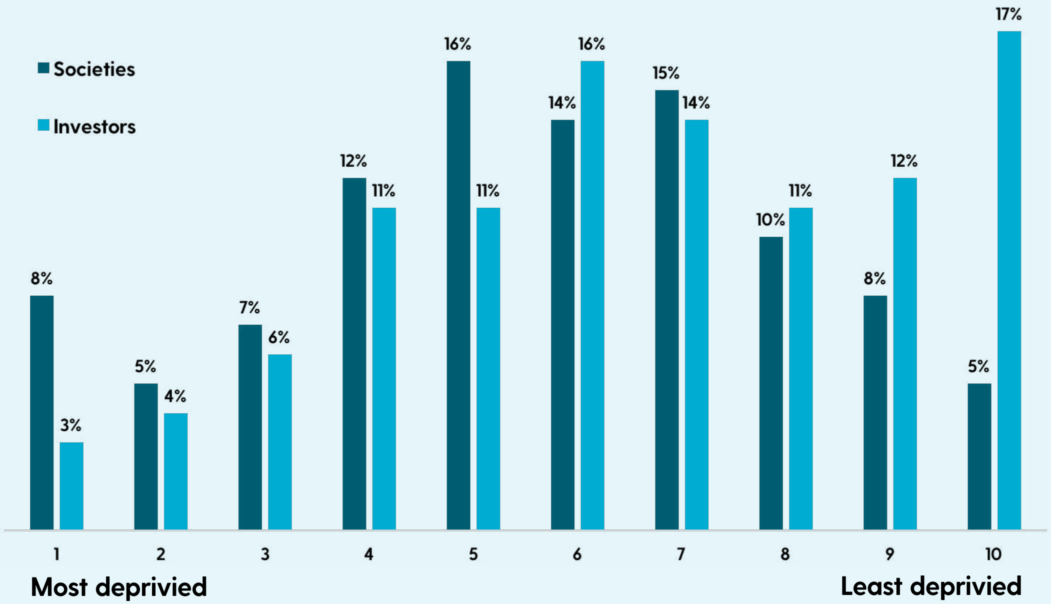
Community shares allow for more privileged members of our society to invest directly in communities that may not have sufficient resources available locally.

Due to the **one member, one vote mechanism**, investors from more affluent areas would not end up with undue influence as they would have equal voting rights to those who have invested locally.

There is strong evidence that people investing in community shares outside their own locality are motivated by the wider social/environmental benefits.

22% of investors only invested in their own neighbourhood or village, with 78% of investors investing further afield (as well as potentially closer to home).

UK-wide Index of Multiple Deprivation (IMD) for businesses and investors



RECOMMENDATION #3

More community-led economic development.

Communities in deprived areas, or addressing specific challenges, should be effectively supported to use community shares; to understand the scope; and to invite investment from further afield without compromising their mission or governance.

[11] IMD figures are for all societies who have used community shares and from the investor survey (370 investors provided postcodes).

46%

are motivated to invest because they would become co-owners of the business

People are investing in a diverse range of organisations – from tackling climate change to providing innovative social care and housing models – **all taking a community-led, inclusive and democratic approach.**

This democratic ownership is a significant motivator with 46% investing because they would become co-owners of the business.

This growing sense of community and co-ownership based on solidarity, shared values and interests can build connections between people beyond traditional geographic communities and from all walks of life.

We want to see the market grow and ensure that more communities across the country are able to access the benefits of community shares.

How can we use the existing funding infrastructure to make this happen?

"There is a collective pride in our community for everything that Fordhall has achieved – even if they are not members. The fact they are part of our geographical community implies a sense of ownership and a shared pride in what we have achieved."

"We also bring tourism to the area and provide a wide range of community services that support vulnerable people in our community."

*"The words **community-owned are extremely powerful and emotive**. They provide a unique selling point (USP) and they automatically imply a huge set of values which include a feeling of being welcome and part of something bigger. As we have a global population of shareholders we also generate tourism for the area and press coverage. None of which would have been possible had we not followed the community ownership model. I am a HUGE advocate for it. **I believe it has advantages on so many levels both short and long term.**"*

Charlotte Hollins, Fordhall Community Farm, Shropshire

4. Institutions, funders and governments play a key role in growing the community shares market

£316 million has been raised by organisations through a combination of community shares, grants and loans.

- **The total raised through community shares is £155,694,394.**
- **Of that, £144,901,344 has been raised through community investors.**
- **For every £1 invested in community shares, an additional £1.18 is leveraged through grants, loans and institutional investment.**

The Community Carrot, Dunbar

The Scottish Land Fund (SLF), which offers grants of up to £1 million to truly embed community ownership and control, has worked particularly well alongside community share offers. They provide a much needed capital injection to kick start community businesses which might otherwise never get off the ground - particularly in less populated and less affluent communities.

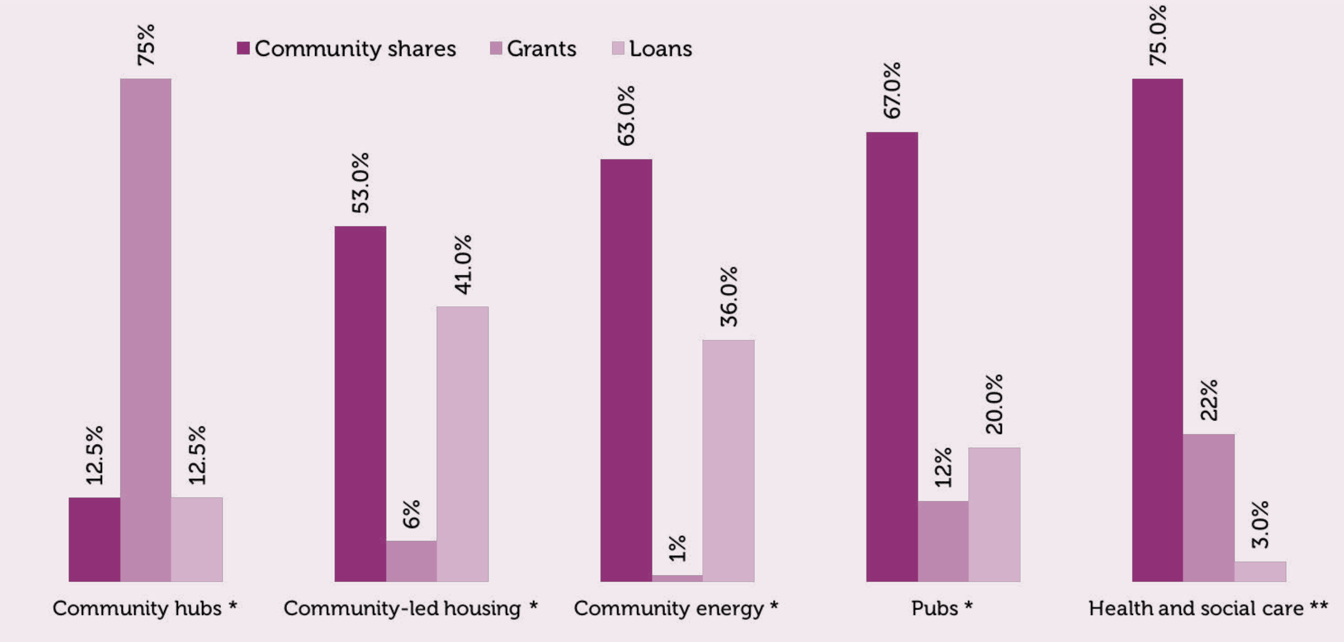
Morven Lyon, Community Shares Scotland

We've found this 'blended' approach is not only beneficial to the business itself but also to grant funders, lenders and institutional investors.

Each element reassures the others and drives forward the project to become a commercial success with wider community benefits.

Split of community shares compared to grants and loan funding

The split of community shares versus loan or grant funding differs across sectors and asset bases. The key role of community shares equity in non-asset based businesses, such as in the health and social care sector, is notable.



* Asset-based share offers **Non-asset based share offers

New ways of using existing levers – institutional investment

Of the £155 million raised in community shares, at least **£7.3 million has come from institutional investment**; any organisation investing in community shares on the same terms as the community.

The vast majority of institutional investors (71%) represent third sector organisations, community bodies, charities or social enterprises. The remaining 29% are a mixture of local government, private enterprises or funders.

Our research found that institutional investment makes share offers more successful in hitting their targets.

On average, share offers that receive institutional investment are likely to surpass their optimum target by £10,000.

In contrast, share offers that did not receive institutional investment fall short of their optimum target by an average of £71,000.

Institutional investment increases the investment potential for more disadvantaged communities, enabling them to reach their targets and kick-start their projects. This is a key opportunity for funders to stimulate the development of community-owned businesses as part of the UK's economic recovery.

The **Community Shares Booster Programme** is managed by Co-operatives UK, which provides an investment vehicle for institutional investment into co-operative and community benefit societies via community shares.

Since 2017, the programme has invested over £2 million of share capital in 32 organisations. In turn this has leveraged over £5.2 million of community investment.

The programme is currently funded by Power to Change and the Architectural Heritage Fund. It makes investments in line with the criteria of the funders. The investments are pari-passu (on the same terms) as the community investors, so it invests alongside the community and takes on a shared level of risk and benefit from the investment.

As a research programme as much as a funding programme, the Booster Programme explores innovative uses of the community shares model to new spaces, places and sectors, to expand and strengthen the overall community business market.

Visit the Booster Fund Programme's website: **www.communitysharesbooster.org.uk**

"The community share offer helped us raise the money we needed to expand the business, but also helped us attract new supporters."

John Haines, CEO and Director of community owned skatepark, Projekts MCR. Their share offer raised £134,338 in total, including Booster investment of £67,194.

RECOMMENDATION #4

More institutional investment in community shares.

Governments (national and local), funders and impact investors should channel more money into institutional investment in the community shares market.

Background and methodology

The Community Shares Unit was established in 2012 as a partnership project between Co-operatives UK, Locality and Baker Brown Associates, funded by the Department for Communities and Local Government (DCLG) until 2017.

The Community Shares Unit (CSU) aimed to establish "community shares" as a social brand and user-friendly label for withdrawable, non-transferable share capital, unique to co-operative and community benefit societies.

Central to the work of the CSU is an ongoing responsibility to track and record community shares market activity, using this data as the basis to collate, analyse and publish information on the activities of societies that make public offers of investment.

This market intelligence is used to develop best practice standards in this unregulated market and invest in innovative share offers as an institutional investor.

Since 2017, our work has been primarily funded through the Community Shares Booster Programme.

In 2015 we produced the Inside the Market report which both sought to explore a relatively nascent community shares market, outline "how" enterprises were raising community shares, and "why" individuals themselves were investing.

This Understanding a Maturing Community Shares Market report, published in 2020, is the most authoritative report on the community shares market to date. It is based on:

- The collation of community shares data, linking with the Co-operative Economy dataset and the Social Economy Data Lab specification.
- Findings from detailed surveys of 104 societies who have raised money through community shares and 534 community shares investors from across the UK.

This report will be followed by the launch of an Open Data Dashboard, allowing further interrogation of the community shares dataset and a longer report with a full analysis of the society and investor surveys.

To find out more about community shares visit www.communityshares.org.uk

"After 20 years in the social investment market, I am immensely proud of my work with the Community Shares Unit in developing the most radical and patient form of social investment."

Hugh Rolo, Development Adviser, Locality

Thousands of businesses, one network

Co-operatives UK is the network for thousands of co-operatives. We work together to promote, develop and unite member-owned businesses across the economy. From high street retailers to community owned pubs, fan owned football clubs to farmer controlled businesses, co-operatives are everywhere and together they are worth billions to the UK economy.

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