Community Shares

promoting enterprise, equity and engagement through community shares and bonds

Community Investor Research

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Wessex Community Assets

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1. Preface by Hugh Rolo, Head of Investment at the Development Trusts Association

The Development Trusts Association working with Cooperatives UK has been privileged to work on the Action Learning Research programme into Community Shares supported by the Department of Communities and Local Government and the Office for Civil Society. The programme has been working to develop best practice, guidance and market information. This research funded by the Asset Transfer Unit into the "early adopters" and their motivations for investing in Community Shares offers a fascinating insight which we trust will be of use to community practitioners, their advisors and supporters and will help broaden the investor base for this rapidly expanding market. Clearly this research will also have topical resonance for those engaged in developing ideas around the concept of Big Society.

2. Acknowledgements

The authors of this report would like to thank the members of the participating societies and the participating financial intermediaries for their help in enabling the completion of this research and also Stephen Rolph of the Development Trusts Association for valuable feedback on the drafting of the report.

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3. Executive Summary

More and more community groups and social enterprises are choosing a business model which involves raising finance directly from the community through a community share issue. This method of raising finance has become more popular over recent years and it has become clear that not much is known about those who are buying the shares. It was recognised that finding out more about the community share investor would assist community groups and social enterprises in planning future community share issues. This research, commissioned by the Development Trusts Association for the national Community Shares programme and the Asset Transfer Unit, has uncovered new insights into the profile and motivations of the current community share investor. It has discovered that there are four primary types of investor:

- The local community investor. This investor lives near to the project and is motivated by social benefits
- The community of interest investor. This investor is interested in the project though not living nearby or connected by a sense of location, but is also motivated by social benefits
- The social investor. An institution or experienced investor looking for a balance between social and financial benefits
- The ethical investor. Looking for mainly social benefits but not foregoing financial compensation, sometimes motivated by ideology and democratic structures

Based on the findings the researchers have made a series of recommendations aimed to assist community groups who are reaching out to these investors to gain finance and support for their project.

The researchers set up a web based questionnaire which was completed by 240 community share investors, then followed up the questionnaire with 30 semi structured interviews with community share investors, and 7 semi structured interviews with financial intermediaries (independent financial advisors, stock brokers, facilitators, and social banks) with an interest in helping to finance social enterprises.

It was found that generally the community share investor is older - aged 45+ - and slightly more often male than female. This gender difference is more pronounced when looking at the investors who are located 50 miles + away from the project (more likely to be social, ethical and community of interest investors), probably reflecting trends in the mainstream investment sector. Community share investors tend to be of higher and intermediate managerial level at work, or professional, or retired. Community share investors like being members of clubs and societies - 75%

are members of other organisations. 52% are members of the National Trust and 30% are members of arts organisations. It could be argued that community share investors are politically left leaning as 65% read the Guardian given the choice. They are financially literate - most have ISAs and many have actively purchased other shares, and a third hold investments in other community enterprises - but they are not seeking financial advice in general. This means that when drafting a community share offer document an organisation has a great responsibility to detail risks clearly and accurately.

Although in general community share investors are not seeking professional advice, the financial intermediaries interviewed during the course of this research do have clients interested in social investment. These are likely to be smaller in number, but are an important part of the mix of investors for some projects as they will introduce larger sums. In the mix of investors in a project there are likely to be larger numbers of individuals investing smaller amounts (the local community and community of interest investors) along with a smaller number of individuals and institutions investing larger amounts (the social and ethical investors). Each project needs to assess how much it needs each group of investor in tailoring its share offer. For example, if it is crucial to attract social and ethical investors into a project because more capital is needed than it believed can be raised from the local community, then financial compensation may need to be offered, a share offer document may need to be more professionally produced, the finances of the scheme will need to be accurately detailed and the social benefits will need to be clearly detailed too (good practice when targeting all groups of investor), and marketing may need to be more sophisticated – perhaps to include financial intermediaries and national press outlets.

The community share investor is not taking undue risk - they are investing sums that they have decided that they could afford to lose. They are assessing the risk themselves by reading the share offer document and looking at the people behind the project. This is especially important for the financial intermediary who is reassured by track record and by having an understanding of the motivations of those involved (as well as the balance sheet and cash flow analysis).

The community share investor is overwhelmingly satisfied with his investment, but for social and environmental reasons rather than financial ones. The motivation for buying the shares in the first place was also mainly social and environmental. The majority have not withdrawn any of their shareholding since the initial investment and have no plans to do so. But this does not mean that buying the shares is effectively a donation, the community share investor views the shares as a hybrid of investment and donation – it gives the investor influence, information and a sense of belonging. The community share investor is a long term partner for an organisation once he/she has made the decision to become a member.

The researchers make the following recommendations aimed at community groups and social enterprises planning a community share issue:

- Consider who the target market is

- Design your offer around the needs of your target market as far as possible
- Consider how to reach potential investors
- Consider the clarity of the share offer document
- Consider tailoring the length of the offer to the needs of the target market
- Consider the costs of marketing and allocate sufficient funds to marketing
- Consider making good use of Enterprise Investment Scheme tax relief (attractive if needing to consider offering financial compensation)
- Ensure that a statement of risk is included that is clear and accurate
- Consider how to make the most of the long term relationship with investors

4. Introduction

4.1 Background

There has been a large increase over the last three years in community groups seeking to raise finance directly from members of their community through share issues using mutual societies. There have been some great successes where societies have been registered and raised enough money through a community share issue to set up a micro hydro renewable energy scheme, or to buy out a village pub or shop. The success of raising finance this way relies on individuals and institutions investing their money in accordance with their ideals.

Before this research, there had been no study of this scale conducted into those buying community shares, and so there were many unanswered questions as to who these investors were, why they were investing and how those contemplating share offers should access them.

The research was carried out by Wessex Community Assets on behalf of the Development Trusts Association (DTA) for the Asset Transfer Unit and the Community Shares Programme, an action learning research project for Communities and Local Government (CLG), funded by the Office for Civil Society (OCS), and delivered in partnership by the Development Trusts Association (DTA) and Co-operatives UK. Wessex Community Assets is a Community Benefit Society with the aim of enabling the development of community owned assets and enterprises.

All of the organisations who participated in this research are Industrial and Provident Societies (either Community Benefit Societies or Bona Fide Co-ops) and are referred to in this report as ‘societies’ or ‘IPSs’. Also, for the purposes of this report the terms ‘investor’, ‘member’ and ‘shareholder’ are used interchangeably.

4.2 Aims of the research

The specific aims of the research were to discover:

- Who is buying community shares?
- What were/are their motivations for buying shares?
- What were the important variables in terms of local investment, financial and social returns on investment?
- How best to reach end investors and which marketing techniques are best suited to this form of capital raising?

An additional part of the research aimed to discover whether financial intermediaries (e.g. independent financial advisors and stockbrokers) had clients interested in buying community shares, what their experience of investing in community shares had been to date, what types of community share offer appealed to their clients and what those putting forward community share offers would need to do in order to access investors through financial intermediaries.

5. Methodology

It was recognised that the most effective way to contact the investors was through the societies they had invested in. 23 societies were contacted to ask them to participate in this research. Of those contacted, 11 agreed to participate in the research (listed in Appendix 1). A web based survey was sent to each participating society (Appendix 2) to forward to its members. As an incentive for investors to complete the questionnaire it was agreed to offer a prize draw – a randomly selected respondent to the questionnaire received a luxury ethical food hamper.

The participating societies cover a range of different sectors, activities and geographical locations. They also covered a range of different types of 'offer'. Some offered a high social return and little financial return, some offered a high environmental return, some the opportunity of Enterprise Investment Scheme tax relief (see Appendix 3 for details of the offers). Some were seeking high target sums, others smaller amounts.

The deadline for the questionnaire responses was approximately two weeks after it was sent out.

Participating societies were also asked to provide information directly from their members' registers on the location of members (the first part of each member's postcode) and amounts of individual shareholdings. It was ensured that all information provided was anonymous (so that no individual investor could be identified by this information). 8 of the 11 participating societies supplied their member's registers for further analysis.

It was recognised that to meet the research aim of discovering the motivations of community investors there would need to be a qualitative element to the research. It was planned to conduct a minimum of 20 semi structured telephone interviews with members who agreed to be contacted for this purpose. In fact a total of 30 semi structured telephone interviews were completed by three researchers. (See Appendix 4 for the interview structure)

For the part of the research which gathered information from financial intermediaries, a semi structured interview was designed (see Appendix 6), with the aim of conducting the interview in person or on the telephone. Five financial intermediaries spoke directly to our researchers. During the course of this part of the research we also spoke to an experienced social investor who invests through intermediaries as well as directly into social enterprises.

Independent research by Energy4All on its community investors in wind co-ops has been included in Appendix 5. The findings expressed in their report are those of Energy4All in its capacity as a supporter and promoter of community share offers, rather than responses from individual wind co-op investors.

Limitations of the Research

It was agreed that for confidentiality reasons the societies themselves would email out the questionnaire to their members. This had the advantage of members feeling reassured that the questionnaire had the support of an organisation they already belonged to and, it can be assumed, trusted. However it had the disadvantage of the questionnaire being distributed in a way that was beyond the control of the researchers – with the possibility that for example the request to complete the questionnaire was a small part of a longer communication, which may have affected the number of responses.

Assuming that all members of all participating societies received the invitation to complete the questionnaire (practically it is unlikely that every member received the email as some may not have an email address), then the questionnaire was distributed to a total of 1785 members.

The telephone questionnaires were conducted with members who had offered to be contacted for this purpose. It is recognised that this self-selection process potentially gives a bias to the findings.

The sample of financial intermediaries is small and designed to supplement the findings of the main body of research. The findings gathered from this part of the research cannot be assumed to be true for all financial intermediaries due to the small sample size and wide variety of different types of intermediary working in the sector, all with different methods and levels of experience in investing in community shares.

The relatively small numbers of responses within subgroups of the data means that the research cannot claim that comparisons between those different subgroups are statistically significant but, overall, the research provides insight and a solid baseline of information.

Summary

- The web-based survey was sent out to 11 participating organisations. This was forwarded to a total of 1785 members
- Semi structured telephone interviews were conducted with 30 individuals who had bought community shares
- Data was obtained directly from the members' registers of 8 of the 11 participating societies on individual amounts of shareholding and location of investors
- Data was also gathered from 5 financial intermediaries and an experienced social investor through semi structured interviews
- There are some limitations within the research due to sample size and the self selecting nature of participants

6. Research Findings

To see a copy of the full, anonymous results of the questionnaire please contact Alison Ward (alison.ward@wessexca.co.uk).

- 240 respondents completed the survey - a 13% response rate
- The organisations represented in the findings vary in terms of sector and size of share issue
- 3 of the participating organisations; Torrs Hydro New Mills, Headingley Development Trust and Natural Food Store, account for 117 of the 240 responses, or 49%

Note: Investors in three societies (Torrs Hydro New Mills, Headingley Development Trust and the Natural Food Store) made up almost half of all responses. It was explored how the above 3 organisations might have influenced the results, but this showed that there did not appear to be any change in the significance of the findings when these three societies were excluded.

Who is buying community shares?

Age

The demographic profile of the community share investors was:

- Older, 45+
- Gender ratio showed 59.3% male: 40.7% female

This ratio is almost certainly a reflection of the general trend of the male dominated investment industry, although, as reported recently in the Guardian[1], this is changing. When analysing the gender ratio of investors living 50 miles or further from the project (80 respondents of our sample, or 33%), men are even more dominant, accounting for 66% of investors in this group.

Location

Regional data from our sample reflected the location of the projects rather than any variation in the likelihood of investment from one region more than another. The area most respondents were from was Yorkshire and Humber (not surprising as the two of the societies with most respondents – The Natural Food Store and Headingley Development Trust – are based in this region). It should be noted that sample sizes when broken down by region were small.

However, when looking only at those living 50 miles or further away from the project, the South East is the location of most respondents (31%), followed by South West (18%) and then London (14%).

The location of the investor was generally either local to the project (50% of questionnaire respondents live within 10 miles of the project they are investing in) or at 50 miles plus away from the project (33% of respondents fall into this category). From this, and the further qualitative research, we know that there are groups of investors who are interested in investing but do not need to be a part of the local geographic community to do so. One third of the telephone interviewees lived within ten miles of the project they were investors in.

Investors who responded to the survey tended to be 'higher and intermediate managerial' and 'professional' occupation or retired (30% classify themselves as 'intermediate managerial, administrative or professional'; 27% - 'higher managerial, administrative or professional'; 27% 'retired').

The figures below show the % of UK population by social grade as used by the National Readership Survey (NRS). Our profile of community share investor was skewed towards Social Grades A, B and E.

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[1] http://www.guardian.co.uk/money/2010/jun/19/online-investing-women

Table 1

Social Grade		% of population	% of our sample responding (n= 228)
A	Higher managerial, administrative and professional	4	27
B	Intermediate managerial, administrative and professional	23	30
C1	Supervisory, clerical and junior managerial, administrative and professional	29	12
C2	Skilled manual workers	21	3
D	Semi-skilled and unskilled manual workers	15	1
E	State pensioners, casual and lowest grade workers, unemployed with state benefits only	8	27

Source: NRS estimates 2008.

36% were full time employees; 32% were self employed; 32% retired (interestingly this figure is higher than those who classified themselves as retired in the previous question; one possible reason for this is that some respondents considered their occupation before retirement in the previous question); 15% were part time employees.

Memberships

The questionnaire asked investors about their membership of other organisations. 52% were members of the National Trust and 30% were members of arts organisations. 103 respondents chose to provide detail on the organisations they are members of. This revealed a wide variety of interests and activities.

Newspaper and magazine readership

Table 2

Guardian	65%
Regional newspaper	31%
Independent/Sunday Independent	26%
The Big Issue	18%
Times/Sunday Times	18%
New Scientist	17%

Community share investors and their relationship with their investment

Withdrawability of investment

98% hold shares rather than loans or bonds, and for approximately three quarters of these members, these shares were bought at the initial share launch. At least 1% (as some skipped the question) admitted to not knowing what they had bought.

98% had not withdrawn their shareholding according to their questionnaire response. When asked during the telephone interview about withdrawal 93% claimed to have no plans at all to withdraw. The researchers probed further to investigate whether this meant that in the investors' minds they saw buying the shares as a donation, but this proved not to be the case and elicited some interesting comments on the interviewees perception of their investment:

- *"this has infinitely greater potential then charitable donations"*
- *"I don't plan to withdraw – that would be cruel. They've had all sorts of snags but have been totally upfront and honest. I didn't invest for profit – it's a good idea. Same for wind fund – it was struggling and small and I didn't see a dividend for ten years but I've had a dividend – very exciting! I would never give that much to a charity as a lump sum…"*
- *"this is not just about giving, there's an ongoing relationship and motivation from being part of a stakeholder group"*
- *"if it was a donation I wouldn't be a member so with this I do have more say. You hand it over and that's it basically [with a charitable donation], I'm a bit more involved"*
- *"I'm earning enough to think of it as a donation but as an investment have put a bit more in"*
- *"if I needed the money I think I could get it back but I'm not counting on it"*
- *"I don't want to make money out of it but it's not quite a gift. Over the long term I will get lots for my money in terms of ownership"*

The web based survey asked how important the ability to access their money was to their investment decision. 1.8% selected 'very important' and 17.3% chose 'quite important'. It is possible that those self-selected for the telephone interview were more engaged with the social aims of the project and less concerned about the financial compensation than the wider sample of community share investors.

Satisfaction

82% claimed to be either 'very satisfied' or 'satisfied' with their investment, only 1.2% responded negatively to this question ('not really satisfied'). On explaining this satisfaction or otherwise, 74% of questionnaire respondents were pleased to support a local enterprise; 63% were pleased to support the local community; 61% were pleased that the investment was good for the environment. 6% were pleased with the financial return they received (2% had expected more financial return; 2% had expected more community benefits; 3% had expected more environmental benefits).

Other investments

One third of our respondents held shares, loans or bonds within other community enterprises. These other community investments included a wide variety of enterprises, including other societies covered by this research; and some ethical investment opportunities that would not be classed as community enterprises, such as the Ethical Property Company – which is a social enterprise but its structure is as a private limited company rather than a community owned enterprise such as a community benefit society or co-operative. This indicates a lack of clarity on what is meant by community enterprise.

The community investment was generally a small proportion of their savings / investments (for 226 respondents of 242). The most popular other investment was the ISA – 83% of respondents held ISAs. 45% had actively purchased other shares (not just acquired them through demutualisation of a Building Society or through their employer). 7% had an investment in a Credit Union.

Relationship to the society

In terms of their involvement and relationship to the society other than as investor, 57% of questionnaire respondents claimed to read communications; 27% have no other involvement; 28% are customers; 26% attend the society's Annual General Meeting (AGM); 10% vote at the AGM but do not attend; 10% are volunteers. When the interviewees were probed about their perception of their relationship with the society the most common response was as a financial supporter. However interviewees also considered that they might be future service users; they were supporting friends; they were supporters generally of the work being done; and also they were active in the society (through employment; board membership; or in an advisory capacity).

Attitude to risk

The majority of interviewees (29 out of 30) indicated that they had chosen a sum to invest that they could afford to lose:

- *" I invested the minimum amount – didn't mind losing a bit of money, wanted to show support but didn't want to risk a lot just in case. £500. A practical but smallish expression of support. I could afford to lose it."*
- *'… I invested what I could afford at the time. I considered the risks personally and didn't get professional advice. They weren't asking for lots, I didn't put lots in as they were up front and said it could be risky. They were asking for small amounts from lots of people'*

In assessing the risk some interviewees stated that they read the share offer documents carefully:

- *"I felt I understood the offer document and I know enough to assess whether I could afford to lose this and yes, I could afford to lose it"*

- *"I read the prospectus, no other advice. It was straightforward and clear so I based my decision on that."*

Believing in the individuals leading the enterprise was also important. Just as a bank manager will assess the capability and skills of the individuals operating an organisation prior to giving a loan, the investor is also looking for reassurance that the community project has a board with the skills necessary to succeed in the venture. 30% of respondents, when asked about motivations in the questionnaire, felt that 'supporting individuals that I believe will succeed' was a 'very important' reason for investing (and 38% said it was 'quite important'). 12 of the 30 interviewees heard about the investment opportunity through a personal contact or were directly involved in the project themselves. One interviewee said: *"No advice, I wouldn't know who to ask, if I did get advice I wouldn't know how to weigh it up, they might say it might not work – but it might! My friend who is involved is very level headed and has lots of experience of the Co-op sector so there was trust in the people behind it. I usually get advice – but for larger amounts".* Another said "*I read the literature and trusted the people involved and their thinking".*

98% did not receive any professional advice. When asked in the telephone interview why they did not seek advice the reasons were: not believing that financial advisors will understand the offer; considering that the sums involved were too small to warrant advice; and wanting control of their own investments.

When offered to comment on the statement, 'The investment will give me a good financial return', 1.8% chose 'very important' and 12.1% selected 'quite important'.

The sample sizes for investors of £5,000- £10,000 and investors of over £10,000 were small. However, in the top three groupings of investors by value from the survey (over £1000) at least 40% felt that 'sufficient' financial return was either 'quite' or 'very' important. This indicates that there is a group of investors for whom 'sufficient' (probably considered to be a minimum of the rate of inflation so that investors are not losing money in real terms) financial compensation is important. Societies should consider whether accessing this group of investors is important when shaping their business plans and share offers.

Motivations

Questionnaire respondents were asked to consider how important different factors were to them when they were making their decision to buy community shares, the results are in the table below. It can be seen that social and environmental and local ownership factors dominate.

Table 3

How important were each of the following reasons to you when making your investment decision?						
	Very important	**Quite important**	**Neither important nor unimportant**	**Not really important**	**Not important at all**	**Response count**
I'm supporting individuals that I believe will succeed	30.4% (69)	**38.3% (87)**	20.3% (46)	5.3% (12)	5.7% (13)	227
The organisation is local to me	**41.1% (95)**	22.9% (53)	12.6% (29)	10.8% (25)	12.6% (29)	231
The organisation has a social purpose	**63.3% (150)**	32.1% (76)	3.4% (8)	0.8% (2)	0.4% (1)	237
The organisation / its work will create a stronger community	40.9% (95)	**43.5% (101)**	11.2% (26)	3.0% (7)	1.3% (3)	232
The organisation / its work provides environmental benefits	**56.7% (132)**	28.8% (67)	12.9% (30)	0.9% (2)	0.9% (2)	233
The organisation will be owned democratically by a community	**43.5% (100)**	39.6% (91)	12.2% (28)	2.2% (5)	2.6% (6)	230
The investment will give me a good financial return	1.8% (4)	12.1% (27)	**35.3% (79)**	28.1% (63)	22.8% (51)	224
The investment will give me a sufficient financial return whilst having other benefits	3.5% (8)	25.2% (57)	23.0% (52)	**27.4% (62)**	20.8% (47)	226
I can access my money if I need to	1.8% (4)	17.3% (39)	**31.6% (71)**	27.6% (62)	21.8% (49)	225
Getting tax relief on my investment (through Enterprise Investment Scheme tax relief)	4.5% (10)	13.5% (30)	28.3% (63)	22.9% (51)	**30.9% (69)**	223

These findings are supported by the qualitative element of the research, where interviewees clearly placed financial motivations below social and environmental ones. There were two interviewees who found social and financial reasons of equal importance, one was an institutional investor who carried out full due diligence on investments: *"I think there is probably a 50/50 balance between financial and social. The finances have to stack up or we won't invest, but if the social impact and mission* *isn't there then we won't invest either."* The rest of the interviewees considered financial motivations as a lower priority than social and environmental ones (some considered environmental reasons to be part of their social reasons) to varying degrees:

- *"Primary reason is social but do want to get some financial return"*
- *"Financial rate of return – none. The social and environmental one is attractive"*
- *"The blend of return is 60% social and 40% environmental"*
- *"I would like there to be a return for the community but not a personal one"*
- *"social factors are important, not looking for a financial return – it's attractive due to EIS"*
- *"Social 30%; environmental 50%; financial 20%"*

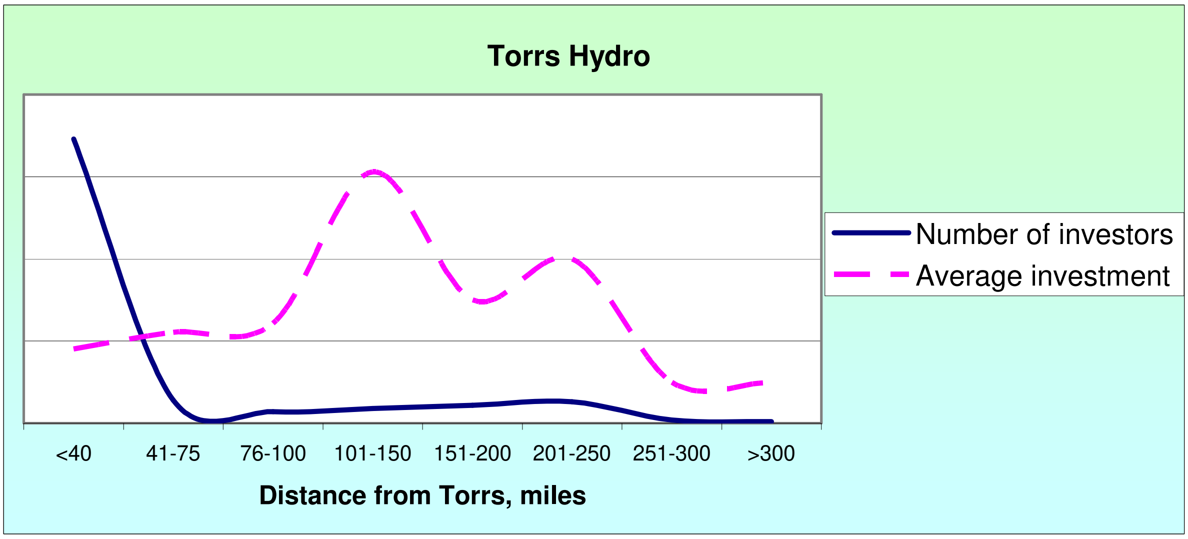
Specifically interviewees spoke of different motivations for investing: the project was worthwhile; liked the concept; liked the mutual/co-operative structure; to support friends; to help the environment; money could have an impact; a good use of money; Enterprise Investment Scheme tax relief was attractive; the business proposition looked good; it's something different; to keep local facilities; to help people; it's local; wanting to see it succeed; admiring the group; possibility of improvement in property prices (if local facilities are better); to be part of the community; peak oil concerns; and, liking local action.

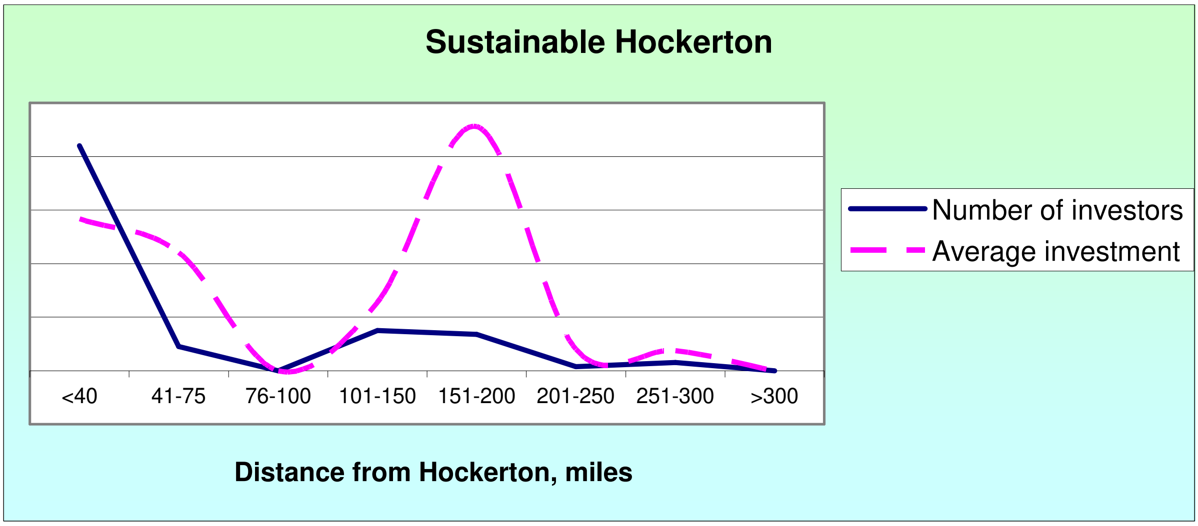
Several interviewees expressed disenchantment with mainstream financial services:

- *"I have no faith in the Government to do what I see as necessary as a Grandmother, especially regarding the environment and transport. The fact that bees aren't pollinating anymore is more important than the banking system"*
- *"…the bad reputation of banks is helping to change peoples' attitudes towards money and the way it is invested"*

Those investing higher sums

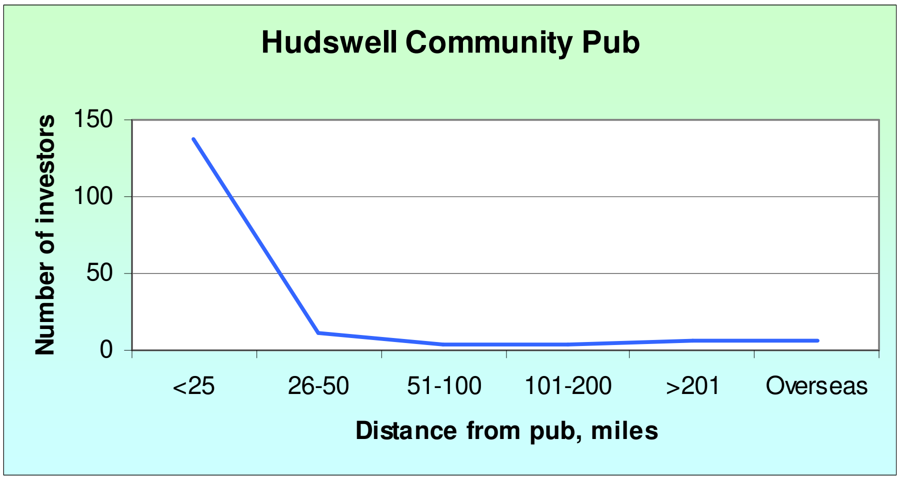
Based on the anonymous share registers, we were able to see a trend in the numbers investing and the amounts they invested. The graphs below show that as investor numbers decline with distance, the amount they invest tends to increase. Local support might be demonstrated with large numbers of smaller investments but larger investors tend to be further afield. Geography and demographics will play a part in this - the larger the area, the more likely a wealthy investor will be found. However, this still has important marketing implications for societies raising capital.





Very local support

The two graphs below show the investor pattern for the community pub in Hudswell and Headingley Development Trust, both local amenities/assets. In these two cases there is a high commitment from local investors and less from groups living further away. Unlike renewable energy, it could be that the social returns of local enterprises provide less motivation to potential investors living any distance from the project itself. Investing in renewable energy is a very clear concept for people to understand, and it can easily be seen how money invested is used and financial compensation can be generated – it is also attractive for a community of interest - Energy4All believe that all of the members of the renewable energy co-ops it creates are members of a community of interest (see Appendix 5). It could also reflect the fact that the marketing efforts of these two organisations focussed on local marketing (whereas Torrs Hydro New Mills received national press attention). 98% of the money raised in Headingley was from that area.



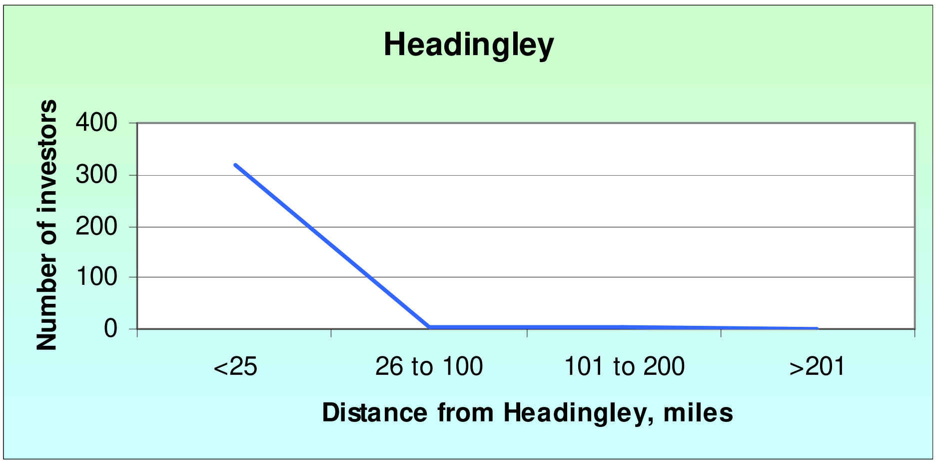


Table 4: Data from members registers on investment amounts

	Mean	Median	Mode	Number of Investors	Total	Proportion of total capital raised by top 10% of investors
Torrs Hydro New Mills	£547	£500	£500	230	£125801	46%
Settle Hydro	£722	£500	£250	158	£114105	46%
Headingley Development Trust	£327	£100	£100	323	£105605	50%
Lightweight Community Transport	£1387	£1000	£500	56	£77650	32%
Good Fuel	£1483	£1000	£500	71	£105300	37%
Sustainable Hockerton	£2699	£1000	£1000	84	£226750	48%
Ecological Land Co-operative	£3583	£2825	£5000	30	£107500	33%
Hudswell Community Pub	£1385	£1000	£500	169	£234100	38%

The data in Table 4 is directly from the members' registers of those societies agreeing to share this data (made anonymous) with the researchers.

The mode, or most frequently invested amount, is the minimum investment as stated in the share offer document for Settle Hydro, Headingley Development Trust, Lightweight Community Transport, Good Fuel and Hudswell Community Pub. This indicates that most investors will invest an amount suggested to them (although clearly ruling out a group of investors who cannot afford the minimum investment). It should be noted that £500 is the minimum investment in order to qualify for Enterprise Investment Scheme (EIS) tax relief. EIS tax relief was offered by Torrs Hydro New Mills, Settle Hydro and Good Fuel. For some groups of investors the 'sufficient' financial compensation required will be provided by EIS tax relief - which is currently the equivalent of 20% of the total invested spread over a three year period.

The relatively high mode for the Ecological Land Co-operative is likely to reflect the society's marketing techniques (focussing on experienced social and ethical investors) and the small number of members. Marketing for this share offer did not seem to focus on those in local communities around proposed projects.

It is noticeable about the figures in Table 4 that the top 10%, of investors by investment size, provide at least 30% of the capital raised and often more than that.

The total investment from just over half of the members (55%) of Headingley produced only 17% of the capital raised. 50% of the capital came from 10% of the investors. Successful share offers may require a few larger investors as well as the many lower value investors.

Amounts invested

Table 5: Data from questionnaire analysis on proportion of total investment divided into individual shareholding amount categories

From web based questionnaire results

Investment range	£1-£250	£250-£500	£500-£1000	£1000-£5000	£5000-£10000	>£10000	
Survey response	24.7%	28.8%	20.6%	21.4%	3.3%	2.5%	101.3%
Middle amount	£125	£375	£750	£1,250	£7,500	£10,000	
Weighted Average	£30.88	£108.00	£154.50	£267.50	£247.50	£250.00	
		96%	invested	£560.88		£497.50	**£1,058.38**

47% of total invested by top 5%

The above figures from our questionnaire results suggest that the majority of the invested money came from a few large investors, rather than many smaller investors, in agreement with the results from the individual share register figures in Table 4.

Opportunities and barriers

During the interviews community share investors were asked what they thought would encourage others to buy community shares and what they thought would stop people from buying community shares. Interviewees felt that the following would encourage investment:

- More awareness of community share offers and hearing about successful projects that have been financed this way – especially hearing about the social benefits of successful projects
- Better marketing by societies, this includes talking directly to the local community more often, producing more professional documents and using networks (such as the Transition Towns Network, Friends of the Earth, or social networking sites on the internet) to reach out to potential investors
- To offer a smaller minimum shareholding (the minimum shareholding for most societies is upwards of £100 for economic reasons)
- To offer shares with greater security and a higher level of financial return for those who require it
- Using EIS more frequently and making EIS easier for inexperienced investors to make use of
- People generally having more money available to invest
- To make investing easier (e.g. to make the risk assessment easier through clear information being available and to have mechanisms to invest over the internet)
- To have a clear understanding of the social aims of the project and how these will be measured

A large proportion of the interviewees (12 out of 30) thought that the most significant barrier stopping people from buying community shares was concern over the risk of losing money. Other barriers identified were:

- People not having enough spare money to consider investing in community shares
- If there were allegations of malpractice or corruption
- Not understanding the social benefits of the project
- Not feeling that a project is professional enough and a lack of belief in those involved. People might be concerned that there is an "*aura of amateurism"* or a perception that those involved were too ideological without the necessary business skills
- The financial compensation offered by the society might not be felt to be sufficient for many investors

Findings from the financial intermediary interviews

It is clear from this part of the research that financial intermediaries do have clients who are interested in buying community shares. These clients are likely to be investing larger sums than other groups of investor and an intermediary may be able to place investments from a number of investors in an organisation. An intermediary will always complete 'due diligence' on the investments which he or she recommends to clients, this is through research into the robustness of the society, the financial viability of the project and the social return offered too.

Clients of the intermediaries interviewed are primarily interested in social returns, however financial compensation is necessary too. One financial intermediary made the point that many clients used the income from their investment to live on, and that some clients are charities and trusts with social objectives of their own. Below market rate levels of financial return are accepted if the client likes the social aspects of the investment. A 4%-5% rate of interest is considered to be attractive at the time of writing (mainly because the Bank of England base interest rate is considered to be low – 0.5% as of September 2010), and a 2%-3% rate of interest is acceptable if the investment is considered to be low risk. There is interest in alternative returns, one intermediary explained that a particular high street retail business issues shopping vouchers to investors each year and that this is very popular with clients, it is considered that this approach would be popular with social investments too, if applied.

Security is attractive (asset backed investments – property for example - are more popular for this reason), but is not vital. Liquidity (i.e. the ability for an investor to access their money as required) is attractive too, but again not vital. There needs to be some mechanism in place for an investor to access their money if necessary, but six months notice is considered adequate, or a penalty would be acceptable if withdrawing investment before a predetermined date. One intermediary doubted the usefulness of a policy to have a fund available for those wishing to withdraw their shares: *"Liquidity policies, etc. are useful but people don't always believe it, policies - such as 5% will be cash - will put off as many as they will attract."*

Community shares are usually a small part of a client's portfolio of investment, but the element of a portfolio that a client wants to talk most about. Clients like the transparency of community investment: "*Clients are not wanting to give away their money to charity, although some clients will invest and then gift their investment to charity at the end. With investing they know exactly what their money is being spent on. My clients are more interested in investing in IPS type investments rather than the big ethical funds (where money might be going into various big corporates which have been negatively screened) because they can see exactly what good it will do. They know where their money will be spent, whether they are local or not. There is more involvement, they get more detailed information because of the structure of the IPS and what they are required to tell their investors."*

Understanding the social return is important, some operate 'social impact tests' to ensure that the investment is meeting their social aims. Two intermediaries mentioned that communications with societies that had received investments through their service has not been good enough: *"It is important to continue to communicate with clients, this has been lacking with some community investments, enterprises seem to be happy to take the money but then we are not seen as partners, we are moving away from shareholder led investments but do want to have involvement, a partnership for the long term - that's what clients like… Clients would like to know how they can engage in the project, there is a social return but you don't get it if you are not communicated with."*

Some intermediaries require commission, however some do not, and so societies will need to check the requirements of each intermediary they speak to. Typically commission would be 3% if applicable. Some intermediaries need to invest at scale, a minimum of £100,000, and partner this with a need not to be the only significant investor. Intermediaries reported that to have the time to conduct their due diligence requirements, and then to communicate with their clients, they ideally need to have advance sight of a share offer document and a business plan a month before the launch of a community share issue. Ideally a society would contact the intermediary a month before that (so two months before the share issue launch date) with information about the dates involved and a general introduction to the project requiring finance. It was considered that a well designed share offer document containing all of the relevant financial information as well as a clear message about the social return is important. It was also mentioned by three intermediaries that it would be useful to be able to offer intermediaries a smaller leaflet or one sided briefing on the project as an easier-to-digest document for a client. A website is expected in most cases. Two intermediaries felt that sometimes the information on financial projections was not detailed enough in the community share offer document:

- *"I would like to see the financial model in advance. I'd like a bit more about the financial model in the prospectus, sometimes documents are unbelievably light on this."*
- *"There is an irony that with an investment with a social focus we need to focus even more on the financials! I would like to see an offer that is well structured, what's the plan if things go wrong, who's behind the offer - need to go through how robust it is. If you are looking to connect with the kind of clients we have, then information needs to be well thought through and presented."*

One intermediary in particular emphasised that relationships are important, as is gaining a deep understanding of the motivations of the people managing the society, and so an intermediary may wish to meet key members of the board of a society and visit the project. All intermediaries reported that being able to demonstrate a good track record (of the society, of the individuals involved, and of the activity to be financed) is a great comfort to them and also to their clients and can be an important factor in unlocking investment.

Some societies have not been prepared to deal with the demands of intermediaries, there is an expectation of professionalism if seeking to access finance though this route: *"One investment we co-ordinated… the society was really not geared up to speak to intermediaries and were only prepared for individual investors. Where there is a need to access larger sums a society needs a strategy for dealing with intermediaries. We shouldn't have to ask 3 times for a business plan, articles of association, and other files…There is a sense that without losing the energy of the community project there is a need to be more professional in anticipating problems."*

All intermediaries are different, even in the small sample interviewed for this research, and need to be communicated with in different ways. Some prefer email, others a phone call, and others information in the post. This research has found that despite the barriers that are in place (the preference to invest larger sums, to not be the only significant investor, the financial compensation needed, and the need for a more professional approach – and the obvious implications this has on the resources of a society) intermediaries are open to different projects, different types of investment, and being creative to support organisations that they feel they can work with to access the finance that is needed: *"I wouldn't rule anything out. There is always a reason to say yes to a start-up. More important is having clarity over the community benefit, and what's the revenue stream. There are 3 M's - Model, Management and Market. I would add another one - Motivation. To understand motivation is why I want to meet people, it's the story that people get captured by. If it is not asset backed then generally I don't think it is a good idea, but I wouldn't want to rule anything out - there may be supplementary things that make it attractive"*

7. Conclusions

The research has identified 4 categories of investor – the first is local, and the other three categories are not reliant on their proximity to the activities financed by their investment:

a) The Local Community Investor

The local community investor is generally an individual who wants to create or maintain local facilities for social return. The local community investor also includes those with connections to, but no longer living, in the area.

Community owned pubs and shops are good examples of the kinds of project that would be attractive for the local community investor. Local people gain from receiving the sense of community derived from being a member of a local enterprise, having influence over a local amenity or service, and receiving information about local activities. One interviewee described how on moving into the area she became a member of a local society through purchasing shares and this helped her to integrate into the community: "*as a new person in the town it was a way to engage with the community".* Another said: "*Every time I go down onto site I see at least one shareholder walk by. Shareholders will visit and bring their friends. Local people are pleased the scheme is there*". Another interviewee said: *"…it seemed like a good idea to own the store between us and maintain it…"*

b) The Community of Interest Investor

The community of interest investor is an individual who wants to create or maintain facilities they have an interest in for social and/or environmental return.

An example of a project that this investor would be interested in investing in would be a community owned railway. An interviewee who could be categorised as this type of investor explained their motivation for investing as *"...purely out of interest! I am interested in railways and railway management…"* Others who could fit into this category were interested in the engineering aspect of some of the renewable energy projects: *"I liked the sound of what they were doing and wanted to support it, my interest was as a former engineer. Not financial, if it was financial I would put it somewhere else".* Investors in this category gain from the increased sense of belonging conferred by being a member, and also from receiving information about things that they are interested in.

c) The Social Investor

The social investor is an institution or high net worth individual interested in receiving a blend of social/environmental and financial return. Possibly social investment is only a small part of a larger investment portfolio.

One representative of an institution who bought community shares in several enterprises said; *"…the finances have to stack up or we won't invest, but if the social impact and mission isn't there then we won't invest either".*

The quality of share offer documents and other communications need to be of high quality for attracting all categories of investor, however the interviews revealed some concerns on the part of social investors as to the presentation of materials: *"...mainly invested to support a nice idea but feel such organisations need to be run professionally…have seen errors in annual reports… if you are going to get money from sophisticated investors then you must be smart in presentation*".

Clients of financial intermediaries who invest in community shares are usually social investors.

d) The Ethical Investor

The ethical investor is an individual with no obvious connection to a Society other than approving of its social aims, and is sometimes motivated by democratic structures and ideology. This investor wishes to invest as a means of receiving primarily a social return but not foregoing financial compensation – a small amount of interest or a tax incentive.

One interviewee said; *"…When we have a bit of extra money we'll put a £1000 in something if it seems good…*" Another said: *'I come from a co-op background, I think ownership is important, people should take control of their lives"* and another stated; *"I think it is very important that people feel they can make a difference to their world and have a voice, that they can work with others towards an objective, contributing to their own development as well as the social benefits."*

Between an Investment and a Donation

The word 'investment' doesn't seem to describe how people view buying community shares. But clearly it is not considered as a donation either. The research findings indicate that those buying community shares are doing so for much more than financial benefits. Interviewees explained how their shareholding gave them influence, information and a sense of belonging: *"the reason I invested was purely to be part of this social initiative"; "I'm pleased to have a share in what they are doing, with a donation there is a feel-good factor, here there is a feel-good factor and a sense of belonging".* Members are buying into more than a financial relationship when they purchase community shares, and they are willing to commit larger sums towards community shares than a donation in return for greater involvement and influence. Although most interviewees have no plans to withdraw, and have selected a sum to invest that they felt they could afford to lose, most seemed to understand that the potential was there to recover their capital if it was needed unexpectedly and that there may (depending on the offer) be financial compensation generated too.

Being a Member

Our results show that over 75% of the respondents declared memberships of other organisations. It could be argued that this demonstrates that community shares offer another way of engaging with a community. Once they understand how membership works, they learn about its benefits and seek them elsewhere– the influence, information and sense of belonging.

Responsibility

The findings show that in general those buying community shares can be considered to have a high level of financial literacy (45% having actively purchased other shares; 83% holding ISAs[2]). This would especially be the case for the social investor and ethical investor. However, the findings also show that those buying community shares are not in general receiving professional advice on making their investment and it is therefore incumbent on those drafting share offer documents to ensure that all information which is used to help make a decision on whether to invest or not is presented clearly, and is true and fair. Societies have a big responsibility to their prospective members to set out the risks adequately.

Becoming more professional

For some community share investors the materials and information offered has not met expectations. In order to reach out to a wider community of investors, and especially those able to introduce larger sums into a project, societies need to become more professional in their approach. The national Community Shares programme has published a practitioner's guide and an investor's guide to community share issues which can help societies to produce good materials and conform to best practice when seeking finance from community share investors. Societies will need to accept that the larger the sums they are seeking, the more

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[2] Over a third (37%) of UK households have an ISA – Feb 2010
http://www.lloydsbankinggroup.com/media/pdfs/halifax/2010/ISAtrendsvFinal.pdf

time and money they will need to spend producing the materials required and marketing their offering.

8. Recommendations

Marketing

Each community group needs to consider the following issues:

- **Consider who the target market is:** This research has shown that there are different types of investor with different motivations. It also indicates that successful share offers seem to require a few larger investors as well as the many lower value investors.
- **Design your offer around the needs of your target market as far as possible:** The nature of the project being financed will dictate who will be interested in investing and the nature of the return they require. Local community investors may be happy to never withdraw their money and be unconcerned about interest being paid - but they will require a clear statement of the community benefit the project will create. What this is and how it will be demonstrated would improve the effectiveness of the marketing if clearly stated. The balance of social and financial return varies between investor and helps them decide what they will invest in. Over 80% also stated democratic and community ownership was important which differentiates a community share purchase from a donation into a local charity, and most other types of investment.
- **Consider how to reach these potential investors:** For the local community investor, societies will need to link in to other local organisations to get the message across and not rely wholly upon local press releases. Consider whether your project has a niche community of interest investment attraction e.g. sustainable transport and contact relevant media, web forums or national organisations with the same interest.
- **Consider the clarity of the share offer document**: During this research it became apparent that some of the share offer documents were well received by potential investors. Clarity comes through good writing skills and design of the document - which is more than simply meeting the minimum legal requirements. One phone interviewee felt the choice they made was either to read the whole document (presumably to assess the risk) or to just invest the minimum. The former is obviously preferable from the society's point of view.
- **Consider various formats of offer document**: The offer document requires careful wording as the board of the society are liable for any misleading statements. Having the offer document checked by a solicitor is a cost and so one set of wording should be used to keep this to a minimum. However, if your project could appeal to both local community investors *and* geographically

dispersed community of interest investors, the formatting of the offer document could be altered to appeal to its intended recipient. A small hydro scheme will appeal to local community investors and the document could have well-recognised landmarks in photos. The same document offered to a retired engineer two hundred miles away may be of more interest if technical drawings and photos of existing installations were included. More distant, possibly larger, investors might be encouraged with glossy printed material that would be irrelevant to a local investor who just requires the information.

- **Consider tailoring the length of offer to the needs of the target market**: The web survey indicated that a sizeable number of investors took their time in acting. Of our respondents, only 80% bought shares at the initial launch and 10% invested more than 6 months afterwards. For a capital-intensive start-up this would be a problem. The offer document should make this clear to investors so that they know they need to act and the society should also be prepared to monitor and follow up any interest. Energy4All report that all shares in the co-ops they set up are bought within a three month window – and that offers are often over subscribed. However this may be attributable to the benefits Energy4All offer their members which it may not be possible to offer from other community share offers (transferability of shares – i.e. members can ask the board for permission to sell to other people wishing to become members; affiliation with the well known Energy4All brand; a detailed regulated prospectus; the prospect of a reasonable financial return).
- **Consider the cost of marketing and allocate sufficient funds to marketing**: As higher value investments are disproportionately important for financial (rather than community support) success, it is worth a society considering how it will contact higher net worth individuals who may not be local. In the course of this research it has become apparent that societies have the occasional overseas investor. This is not to be recommended as selling shares overseas will fall under the local financial services regulations and could lead to problems in the event of a complaint. This information does, however, demonstrate that distance is not necessarily a barrier. In one case, a couple who had emigrated wanted to support the shop in the village they had lived in for many years. At some level it was still 'their' shop.

A community taking on an old school building could easily make use of a social networking website, for example, but Energy4All's high capital requirements for wind farms requires glossy, beautifully designed offer documents that sophisticated investors/high net worth individuals would expect when investing large sums. Indeed Energy4All state that they believe the quality of the offer document is a key to their success in raising capital. It should be noted that Energy4All are required to produce a regulated prospectus containing a far greater amount of information than the unregulated community share offer documents offered by the societies participating in this research. Energy4All state: *"The major advantage of the regulated Offer is the discipline of the regulatory process, which is manifest in the Share Offer Documents. This gives a greatly enhanced level of credibility with potential members, a factor that is believed to be highly significant."* Because of the costs involved it would probably not be viable to develop a regulated prospectus if seeking less than £1 million in investment.

- **Consider making use of Enterprise Investment Scheme tax relief (EIS)**: This gives the possibility of an increased financial return to investors. It is not available for all investments (certain sectors are excluded, such as property development and financial services) and not required by all investors, but a suitable project may attract more investors if it can offer EIS. It is important to remember that the share offer document, stating what the investment terms are, affects EIS eligibility and so must be worded accordingly.

  The sample size for those investing over £10,000 was small (6) but half of this number stated that EIS was 'quite' or 'very' important. The disproportionate effect of larger investors means anyone issuing share capital needs to be aware of this. If seeking to attract the groups of investors for whom this is important (likely to be the 'social' and 'ethical' investors) societies should consider offering EIS tax relief when possible. It is also a method of compensating members financially at no cost to the society itself, apart from a relatively small amount of administration.

- **Make sure a statement of risks is included and that it is clear and accurate**: The investors contacted during this research clearly understood that there were risks involved in financing the projects they invested in. Although it may be tempting in marketing materials to underplay these, the research suggests that people understand their money could be lost and stating the risks clearly would not deter investment. The need amongst some groups (social and ethical investors) for at least a sufficient amount of financial compensation means a clearly stated, robust business plan will be appreciated by investors even if it has an element of risk. Investors must understand that their money is at risk and that they have no recourse to any financial compensation scheme.

- **Consider how to make the most of your relationship with your members:** This research shows the need to recognise the continuing relationship with the community share investors beyond the initial investment. As those buying community shares do not seem to generally have any plans to withdraw those shares it can be seen that once a member joins it is the beginning of a long term relationship between the member and the society. This could have numerous benefits for both parties. The research findings suggest that members would be willing to become more involved in the society's activities. They could also be approached for further investment if this became necessary. Information gathered from the interviews and questionnaires suggest that many members see their role in the society as more than only financial. Societies need to consider how they nurture this relationship through communications and offering opportunities to their members for further involvement.

Recommendations from financial intermediary interviews

If seeking finance from a wider group of investors including social investors, especially if needing a larger amount of capital than can be provided by the local community, community of interest and ethical investors (although ethical investors may have some of the same requirements as social investors), then it may be useful for a society to plan to seek investment through financial intermediaries. Generally the above conclusions and recommendations apply to investments through financial intermediaries equally as with other groups of investor, however there are some points that societies should consider if specifically seeking investment via this route.

Financial intermediaries cite a lack of time to conduct the required level of due diligence as a reason why they often do not discuss a community investment proposal with their clients. To overcome this barrier societies should consider how they can conduct their own internal due diligence to an appropriate standard. This means that ensuring that everything that is stated in a share offer document is accurately evidenced, that financial information is sound and complete, that there is information on a 'back up plan' if things go wrong, and that information is easily accessible on the background of the project and those individuals that are key to the project – especially those on the board of the society (this is the crucial track record that social investors gain comfort from). The society should also consider using legal professionals and accountants to verify information if seeking larger sums, if such professionals can be found within the local community to join the board of a society, or provide pro bono or discounted work this could provide crucial reassurance to an intermediary and their clients.

A recommendation for the community shares sector from this part of the research is that it would encourage investment through financial intermediaries for regional or national themed funds to be set up to accept investment on a larger scale to on-invest into a number of community shares projects. This would overcome the barriers of an intermediary needing to invest larger sums than often appropriate for community projects (£100,000 minimum was stated by one intermediary) and to reduce the due diligence burden on financial intermediaries. An example of this is a South West Community Renewable Energy Fund or a North East Community Shop Fund.

9. Appendices

Appendix 1

Participating Societies:

- Mustard Seed (buildings)
- Headingley Development Trust (community facilities)
- The Natural Food Store (retail)
- Torrs Hydro New Mills (renewable energy)
- Good Fuel Co-operative (renewable energy)
- Lightweight Community Transport (transport)
- Settle Hydro (renewable energy)
- The Ecological Land Co-operative (land)
- Go! Co-operative (transport)
- Hudswell Community Pub (pub)
- Sustainable Hockerton (renewable energy)

In addition to these societies, Witherslack Community Shop advertised the survey to their members through their shop window and this generated one response.

Appendix 2

The Web Based Questionnaire

Introduction

The purpose of this research is to understand more about community investment and to help more community projects to raise finance through issuing community shares.

We would greatly appreciate your time in completing this questionnaire which should take approximately fifteen minutes. All feedback will be kept anonymous. If you wish to provide personal details later in the survey, these will not be made public at all or forwarded to any third party.

This research is being carried out by Wessex Community Assets, an independent not for profit organisation (an Industrial and Provident Society for the Benefit of the Community) on behalf of the Development Trust Association. The research is part of the national Community Shares action research project for the Department of Communities and Local Government, funded by the Office of the Third Sector. The research is being conducted in line with the Market Research Society Code of Conduct.

The final report will be available online on www.wessexca.co.uk and also it will be distributed to all participating organisations.

Please provide your response by 7 June 2010. All respondents will be entered into a Free Prize Draw for an ethical luxury hamper worth £50 provided by Turnham Green (www.turnham-green.co.uk). The Prize Draw will be managed by Wessex Community Assets, and the winner will be announced on 8 June 2010.

If you have any questions regarding this questionnaire, please contact Alison Ward, email to alison.ward@wessexca.co.uk.
Thank you for your participation!

1. To qualify for the prize draw please include your email address here (it will only be used for the purposes of selecting the winner of the prize draw)

Your investment

2. Which organisation is your investment with?

3. What type of investment do you hold?

- ☐ Shares
- ☐ Loans
- ☐ Bonds
- ☐ Don't know

4. When did you make your investment(s)? Please tick more than one if relevant.

- At initial share launch
- Three months after the initial share launch
- Six months or more after the initial share launch
- I don't recall

5. Have you withdrawn any of your shareholding since making the initial investment?

- Yes
- No
- Don't know
- Not applicable

6. How likely would be to withdraw all or part of your shareholding during the next 10 years?

	1 year	3 years	5 years	10 years
Very likely				
Likely				
Neither likely or unlikely				
Unlikely				
Very unlikely				

7. Which of the following bands does your investment fall into?

	From £1 to £250	From £250 to £500	From £500 to £1,000	From £1,000 to £5,000	From £5,000 to £10,000	Over £10,000
Shares						
Loans						
Bonds						
Don't know						

8. How satisfied are you with this investment?

- Very satisfied
- Satisfied
- Neither satisfied or unsatisfied
- Not really satisfied

- Very unsatisfied
- Not applicable

9. Which of the following descriptions applies to your satisfaction or otherwise of your investment? Please tick all that apply.

- I'm pleased with the financial return I receive
- I'm pleased to support a local enterprise
- I'm pleased to support the local community
- I'm pleased that the investment is good for the environment
- I had expected more financial return
- I had expected more community benefits from the project
- I had expected more environmental benefits from the project
- I can't explain in a tick box questionnaire (please consider choosing to do a phone interview with us to talk more about this or to attend one of our focus groups!)

Please add any comments

10. Did you receive any professional advice regarding this investment?

- Yes
- No
- Don't recall

11. If yes, who provided this advice? Please tick all that apply.

- Independent financial advisor
- Bank / financial institution

Other (please specify)

Other financial investments

12. Do you hold other shares, loans or bonds within other community enterprises?

- Yes
- No
- Maybe
- Don't know

13. What other community enterprises have you invested in?

14. What other types of investment do you hold?

- [ ] Occupational pension
- [ ] Personal pension
- [ ] Bank deposit account(s)
- [ ] Credit Union
- [ ] ISA(s)
- [ ] Unit Trusts
- [ ] Other shares purchased
- [ ] Other shares acquired (e.g. through employer, demutualisation of building society)

Other (please specify)

15. How would you describe your investment in the organisation you named at the beginning of this survey, compared with your other investments?

- ( ) A large proportion of my savings and investments
- ( ) About equal to other savings and investments
- ( ) A small proportion of my savings and investments

Motivations

16. How important were each of the following reasons to you when making your investment decision?

	Very important	Quite important	Neither important nor unimportant	Not really important	Not important at all
I'm supporting individuals that I believe will succeed	( )	( )	( )	( )	( )
The organisation is local to me	( )	( )	( )	( )	( )
The organisation has a social purpose	( )	( )	( )	( )	( )
The organisation / its work will create a stronger community	( )	( )	( )	( )	( )
The organisation / its work provides environmental benefits	( )	( )	( )	( )	( )

The organisation will be owned democratically by a community	☐	☐	☐	☐	☐
The investment will give me a good financial return	☐	☐	☐	☐	☐
The investment will give me a sufficient financial return whilst having other benefits	☐	☐	☐	☐	☐
I can access my money if I need to	☐	☐	☐	☐	☐
Getting tax relief on my investment (through Enterprise Investment Scheme tax relief)	☐	☐	☐	☐	☐

Please tell us of any other reasons you feel were important

17. What involvement, or relationship, other than as investor, do you have with the organisation?

- ☐ Customer
- ☐ Service user
- ☐ Volunteer
- ☐ Activist
- ☐ Director
- ☐ Attend AGM as member
- ☐ Vote at AGM but not attend
- ☐ Read communications
- ☐ No other involvement

Other (please specify)

18. If you make donations to charities, is your investment in the organisation in question large or small in proportion to your total donations in an average year?

- ☐ Investment is large in comparison to donations
- ☐ Investment is about the same as the donations

- Investment is small in comparison to donations
- Not sure

Your interests

19. Which of the following publications would you choose to read?

- The Times / Sunday Times
- Daily Telegraph / Sunday Telegraph
- Daily Mail / The Mail on Sunday
- The Guardian / The Observer
- The Sun
- Daily Star
- Daily Express
- The Independent / Sunday Independent
- The Scotsman
- The Herald-Scotland
- Western Mail / Wales on Sunday
- Local or regional newspaper
- BBC Top Gear
- Saga Magazine
- National Geographic
- Reader's Digest
- BBC Gardener's World
- The Big Issue
- The Economist
- New Scientist

Other (please specify)

20. Do you hold membership(s) to any of the following?

- AA
- RAC
- National Trust
- Royal Horticultural Society
- Greenpeace
- Friends of the Earth
- Arts organisation e.g. Local theatre, national gallery, cinema. Please specify below
- Sports organisation e.g. local football club. Please specify below
- Wine Society
- Womens Institute

Other or further detail to answer provided above

A bit about you

21. Are you

☐ Male

☐ Female

22. What age group do you fall into?

16-29
30-44
45-59
60-64
65-74
Over 75

23. What is your ethnic group?
White British
White Irish
White – Any other White background
Mixed – White and Black Carribean
Mixed – White and Black African
Mixed – White and Asian
Mixed – Any other mixed background
Asian or Asian British – Indian
Asian or Asian British – Pakistani
Asian or Asian British – Bangladeshi
Asian or Asian British – Any other Asian background
Black or Black British – Carribean
Black or Black British – African
Black or Black British – Any other Black background
Chinese or other Ethnic Group – Chinese
Chinese or other Ethnic Group – Any other
Prefer not to say

24. Where are you located?
South West
South East
North West
North East
Yorkshire and the Humber
East
East Midlands
West Midlands
London
National
Wales
Scotland
N Ireland

Please provide your postcode sector, e.g. EX17 6, GU1 2

25. How far are you from the organisation in which you have invested?

- [ ] 0 - 10 miles
- [ ] 11 - 25
- [ ] 26 - 50 miles
- [ ] over 50 miles

26. What is your employment status

Full time employee
Part time employee
Self employed
Full time carer
Retired
Volunteer

27. Which of the following describes your occupation?

- [ ] Higher managerial, administrative or professional
- [ ] Intermediate managerial, administrative or professional
- [ ] Servisory, clerical, junior managerial, administrative or professional
- [ ] Skilled manual
- [ ] Semi-skilled or unskilled
- [ ] Retired
- [ ] Prefer not to say

Other (please specify)

We need your help!

28. We would like to discuss some of these issues in more depth with people. If you feel that you haven't had enough space on this questionnaire to explain things, and you would be happy to talk to us some more, please tick the box below and we will contact you to arrange a telephone interview.

The interview will take approximately 20 minutes and will give you a chance to be entered into another prize draw for a luxury hamper worth £50 from Turnham Green!

Please note we do not expect everyone to be financial experts, but we are really interested in talking to people who put their money where their ideals are!

- [ ] Yes, I would like to participate in a telephone interview
- [ ] No, I would rather not participate

29. Also, we will be running a series of focus groups - basically a get-together of a few investors to talk through issues in a group. The group will take approx 2 hours and participants will be paid £20 for their time. Please tick the box if you are interested in attending a focus group.

- [ ] Yes, I would like to attend a focus group
- [ ] No, I would rather not attend a focus group

30. If you are interested in participating in a telephone interview or attending a focus group, please provide your name, email address and day-time telephone number below.

Thank you

Thank you for your time. Your responses will help more community groups to raise finance through community shares in the future.

Appendix 3

The Community Share Offers

Torrs Hydro New Mills

- Community-owned hydro scheme
- Part grant funded, this project uses a reverse Archimedes screw to generate electricity in an existing weir. There was lots of national coverage and the investors live all over the UK (although the majority are local)
- It was forecast to produce 260,000 kWh per annum
- The offer document stated that no interest was expected for the first 3 years, after this 7.5% was the expected interest rate
- The offer was awarded advanced assurance of Enterprise Investment Scheme (EIS) tax relief by HMRC
- There were two share issues
- The project received editorial coverage in the Guardian newspaper and on Radio 4

Settle Hydro

- Community-owned hydro scheme
- Very similar to Torrs Hydro New Mills, this offered a forecast of a maximum of 7.5 % per year return for investors
- Offered EIS
- Editorial coverage in the Guardian newspaper

Sustainable Hockerton

- Community owned renewable energy scheme
- Second hand wind turbine 225kW to be purchased and commissioned, planning already granted
- 5-8% interest expected. EIS strongly promoted. Investors were told that it was expected that the turbine would be decommissioned between 15 and 20 years when investors should see their capital returned
- The offer appeared in web publications such as Green Energy Republic, and MicrogenScotland.org.uk
- Achieved local publicity in the local paper Nottingham Evening post but also national coverage due to its connection with the Hockerton Housing project
- The offer document made a very good business case and also gave figures on environmental benefit. It stated that domestic consumption is 275 MWh per year in Hockerton, giving a feel for the value of the turbine production which would be 330 MWh per year. Carbon dioxide equivalent saving of 176 tCO_2 per year was quoted for those more interested in figures

The Ecological Land Co-operative

- Community-financed small holdings
- The co-operative uses planning gain to subsidise the entry costs of land-based businesses as follows: the planning authority is asked to grant permission for the development of low-impact residences on agricultural land. By obtaining planning permission the co-op can offer residential small-holdings at a fraction of the current market price. Originally a private company, after 2 years it converted to an IPS co-op in Sept 09
- It cannot offer EIS due to the nature of its business but is offering investors an interest rate of 6%
- Marketing was to social investors and also the society appears on You Tube explaining what they do. Clearly So, an online social business site, provides information on the Ecological Land Co-operative and social networking sites are also used

Headingley Development Trust

- Asset transfer to community of a building
- After 3 years of struggling with the asset transfer, enough money had been raised to prove community backing and this increased the grant funding they were offered. The Headingley Development Trust membership was the main source of investors but there was some national newspaper coverage (Guardian Society). Also, members were encouraged to spread the word about the share opportunities and encouraged people to buy them as presents
- The share offer did not offer EIS tax relief or interest payments on invested capital

Natural Food Store

- Community-owned whole food shop
- Backed by Headingly Development Trust (HDT) an existing business was purchased from retiring owners by the IPS co-op
- The share issue raised £100,000 in around six weeks using the contact details for the 800 members of HDT and a stall at the farmers' market. The shop was a profitable, well-known business and the society also had free professional support from solicitors and an accountant.
- EIS was offered

Go! Co-op

- Train operating company, also possibly cars and buses in the future
- The first co-operatively-owned train operating company (TOC) in the UK seeking funding from socially-minded investors to raise upwards of £250,000 to develop better links between smaller towns and villages, in order to help improve the economic prospects of more rural locations
- Offered both transferable and withdrawable shares and returns of 10-15%

- Information was provided about the offer at public meetings and in the Social Enterprise online magazine in Nov 09. It was also featured in the specialist trade magazine, Rail Professional, and in a document published by ATOC (Association of Train Operating Companies).
- Clearly So website provides information about Go! Co-op
- The offer document emphasises social returns (environmental and community) and also secondary social returns (being run as a co-op providing a better working environment) and the Somerset rules the society uses require social accounts to be produced

The Good Fuel Co-operative

- Secondary co-op for bio fuel producers
- The Good Fuel Co-operative is a UK co-operative whose members are themselves co-operatives producing and supplying biodiesel and other low carbon fuels in their local area. The IPS can on-invest into private companies such as Sundance Renewables
- The offer document states that Good Fuel Co-op is eligible for EIS and aims for 3-5% interest as a reward for investing, 'regular interest payments similar to saving account interest rates'
- Information on the Good Fuel Co-op is provided on the Clearly So website and also on the RISE (Regional Infrastructure for Social Enterprise) site.*"It is often the case that in recessions co-operatives can rescue assets and facilities originally developed by over-ambitious private enterprises. As the speculative and greedy investors flee the bio fuel sector, a more prudent, principled and accountable business model is taking its place*." This quote from the RISE website emphasises that this is more than simply investing for a financial return.

Lightweight Community Transport

- Community-owned transport enablers
- Lightweight Community Transport (LCT) exists to provide finance for business planning, training and depot construction and to lease rolling stock. The development of light rail vehicles that do not require overhead lines and use hybrid drives to conserve energy requires £240,000 start up funding, followed by a further £300K in year 2 and £400K in year 3. The funds will be used for the purchase of rolling stock and support for the development of the light rail projects where it will be used. LCT's customers will be rail operators – a business that wishes to provide a passenger service
- Lightweight Community Transport's stated aim is to improve accessibility, quality of life and environmental sustainability by providing rolling stock and other services for new light rail routes in locations around the UK
- Returns to investors fall into one of two categories: social returns and financial returns. LCT states that as a Society for the Benefit of the Community, their principal purpose is to deliver social returns.
- The first round of investors are offered additional shares which were expected to contribute to an expected internal rate of return 'in excess of 9%'
- EIS was not offered

- As well as approaching ‘sophisticated investors’ directly, LCT features on Clearly So website and is backed by the manufacturer of the small trains, Parry

The George and Dragon- Hudswell

- Community-owned pub
- The pub had been empty for 18 months but the offer document made a convincing business case - not offering a high return but backed by an asset.
- EIS tax relief was not offered. The shares sold well and a £30,000 loan that was available was not required. It is felt that’ “*most of our investors joined HCP because they supported what we were trying to achieve, not because they saw it as a profitable investment.*”
- It offered 3.5% in year 1, rising to 5% by year 3 for investors. It was also set up so that enough money was raised that a reserve of cash would enable sufficient liquidity that share withdrawal would be possible- often difficult with assets providing a low return. This will only be called on if no investor can be found to replace the departing member’s capital.

Appendix 4

Community Shares Research 2010
Semi-Structured Telephone Interview

Thank you for agreeing to participate in this interview, it should take approximately twenty minutes. All feedback will be kept anonymous. The purpose of the research is to understand more about community investment and to help more community projects to raise finance through issuing community shares. This research is funded by Government and being conducted in line with the Market Research Society Code of Conduct.

The final report will be available online on www.wessexca.co.uk and also it will be distributed to all participating organisations. Please feel free to ask any questions you might have at any point during the interview. I will not be recording the interview but I will be making notes.

1. Which organisation have you bought community shares in?
   -How did you hear about this organisation?
   -How far from the organisation do you live?
   -What do you think of as your relationship to this organisation?
2. Why did you choose to buy these shares?
   -What were the most important factors – social, environmental, financial
   -How did you choose the amount to invest?
   -Did you make an assessment about the risks involved?
   -Could you afford to lose the money invested if something went wrong?
3. Did you get any advice before buying the shares in … [name of organisation]?
   -If yes, how helpful was the advice?
   -If no, why not?
   - Do you normally seek advice before making decisions about money?
4. When do you plan to withdraw your shares (if at all)?
   - Probe reasons for this, is investment seen as an investment or more like a charitable donation?
5. Many respondents to the internet questionnaire felt that the fact that the organisation they were investing in was owned democratically by the community was important, is this important to you? Why?
6. What do you think would encourage people to invest in community shares?
7. What would stop people from investing in community shares?
8. Any other comments?

Appendix 5

COMMUNITY INVESTORS RESEARCH

PREPARED FOR:

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CONTENTS

- The centralised nature of energy supply in Britain, dominated by a few huge companies, has divorced most people from the sources of their power. Energy4All was established specifically to enable ordinary people to own and manage their own sources of renewable energy through democratic structures.

- The structure that Energy4All has adopted to deliver this aim has been driven entirely by the characteristics of the sector, notably…

  - The high cost of initial development work and the high risk of failure which makes it extremely difficult for communities to enter the sector.

  - The very high capital requirements at the construction stage (- a single full size on-shore wind turbine now costs £4m) and the difficulty of raising this capital (see below).

  - The long term nature of the investment. A typical renewable energy project has a working life of at least 20 years.

- Potential Sources of Capital
  a. Grants - It is sometimes possible to raise small amounts of equity from grant sources. However grants are normally very limited in scale, subject to conditions, and increasingly difficult to secure.

  b. Commercial Sources – bank borrowing is dependent on
     i. a substantial equity stake, and
     ii. a highly professional and credible management team.

  c. Equity raised from supporters of the project.

  In practice, Energy4All has adopted a policy for its major projects of avoiding grants while roughly balancing equity and debt, so that the membership of the co-operative is maximised, while not compromising the financial viability of the project through over-gearing.

- As a result of the above analysis, Energy4All (drawing on the experience of its founder, Baywind Energy Co-op) has used the co-op model as an ethical and democratically-controlled means of raising equity capital, pooling and leveraging the resources of co-op members to achieve something that would otherwise be entirely impossible.

- Energy4All uses the bona fide co-op structure and regulated share offers to raise equity. (Note: Offers to raise less than €2.5m are regulated by 'an (FSA) approved person' rather than by the FSA directly, but in the experience of Energy4All this is at least as rigorous as direct FSA regulation. In this paper, the term 'regulated offer' refers to either route).

  - The disadvantage of this structure is the high costs of a Share Offer (including professional fees this is typically 5% - 10% of the amount raised). In the opinion of Energy4All it is uneconomic to run a full scale Offer to raise less than £1m capital and the minimum should preferably be £2m. Only if there are mitigating factors on costs is a smaller target reasonable.

    - The major advantage of the regulated Offer is the discipline of the regulatory process, which is manifest in the Share Offer Documents. This gives a greatly enhanced level of credibility with potential members, a factor that is believed to be highly significant.

- There are other important considerations in adopting this co-operative structure:-

    - It is possible to pay relatively attractive rates of financial return (if the project is capable of generating them). As the projects are very long term and involve significant risk, it is Energy4All's experience that ethical factors are not sufficient to secure the necessary capital without a reasonable rate of financial return (see detail on motivations below). This mirrors the experience of the Findhorn community (see attached page below).

    - Shares in Energy4All co-operatives are transferable, subject to the approval of the co-op's board; this provides some flexibility for members. Energy4All can put willing buyers in touch with willing sellers, but takes no further part in the transaction apart from dealing with the paperwork under its management agreement with the co-op.

    - Due to the capital-intensive nature of the projects, capital cannot be withdrawn on demand, though arrangements may be put in place to permit limited withdrawals in the later years of a project. These are very long term projects which members invest in as a commitment to 'green' energy generation, not short term 'savings account' investments.

- Using the above structure, Energy4All has launched 6 new co-ops in addition to the original Baywind Co-op. These fall into two distinct categories:

    - The 'English' model, characterised by
        - Turbine ownership
        - No commercial developer involvement
        - Operational Management by the co-operative

      This is Energy4All's preferred model as it involves full ownership and operational control. Baywind and Westmill fall into this category. Fenland Green Power Co-op is a hybrid in that the co-op owns turbines on a commercial wind farm which is operated by a commercial developer.

    - The 'Scottish' Model. This is characterised by
        - No fixed asset ownership
        - No operational control
        - A direct stake in the performance of the project
        - Creating a focus and funding for local environmental initiatives.

      This model arose from the obstacles to originating and developing community-based schemes in an environment dominated by major developers and utilities. The only other community schemes that have succeeded in this environment are those grant-funded in areas of deprivation such as the Western Isles.

Falck Renewables plc was keen to devise an innovative method of allowing a direct stake for local people without major disruption to the financial structure of the projects. Given the remote locations, the sparse population, the huge scale of the projects and hence the impossibility of any other form of local ownership, Energy4All reached an agreement with Falck for local people to be able to invest in their local project. Boyndie, Skye, Great Glen and Kilbraur fall into this category and are referred to as 'Falck' projects. There is a mutual commitment by Energy4All and Falck Renewables to create new co-operatives on all future Falck developments in the UK.

Basic details of all seven co-ops are set out below.

ENERGY4ALL CO-OPERATIVES

1. BAYWIND ENERGY CO-OPERATIVE

- Share offers: 1996 + 1998
- See attached FSA returns for further details

2. BOYNDIE WIND FARM CO-OPERATIVE (A 'FALCK' PROJECT)

- Share offers: 2006 + 2010 extension
- Total equity raised: £882,000
- Current Members: 724
- Approx. average investment: £1,200

3. WESTMILL WIND FARM CO-OPERATIVE

- Share offers: 2005/6
- See attached FSA returns for further details

4. FENLAND GREEN POWER CO-OPERATIVE

- Share offers: 2007
- See attached FSA returns for further details

5. SKYE WIND FARM CO-OPERATIVE (A 'FALCK' PROJECT)

- Share offers: 2007
- Total equity raised: £812,000
- Current Members: 580
- Approx. average investment: £1,400

6. GREAT GLEN ENERGY CO-OPERATIVE (A 'FALCK' PROJECT)

- Share offers: 2008
- Total equity raised: £1,288,000
- Current Members: 685
- Approx. average investment: £1,900

7. KILBRAUR WIND ENERGY CO-OPERATIVE (A 'FALCK' PROJECT)

- Share offers: 2008
- Total equity raised: £1,044,000
- Current Members: 526
- Approx. average investment: £2,000

FOOTNOTE:

It should be noted that Energy4All has also recently launched **Energy Prospects Co-op** to facilitate the crucial pre-planning stage of community projects. By adopting a 'portfolio' approach which accepts that a high proportion of projects will fail to secure planning, Energy Prospects will provide expertise and resources to greatly reduce the risk to any individual community. This should result in the successful creation of more community based renewable energy projects.

Energy Prospects is a true 'community of interest' co-operative with individuals from across the UK placing their investment at risk for the common good of the community energy sector. The offer for £1m was fully-subscribed ahead of the closing date.

COMMUNITY OF LOCALITY

Energy4All co-operatives (except Energy Prospects) are all founded around a specific project and are therefore ‘communities of locality’. To reflect this, publicity for a Share Offer is normally concentrated only in the area of the project (the radius varies according to the geography) and there is priority for local people in the event of over-subscription.

Despite this common approach, the proportion of members drawn from the area around a project varies greatly:-

- At one extreme, where there is a clearly defined community such as the Isle of Skye, the ‘local’ proportion is well over 60%. Likewise round Boyndie (Banff/Macduff) the proportion living within about 50 kms is over 70%. In both cases, members of the co-op refer to ‘our wind farm’ despite owning only a small percentage of it.
- Even in areas with a less well-defined population, such as Westmill with its 2,400 members, the degree of local identity is strong. This is at least partially due to the committed local group that struggled to get the site approved for many years. However the high degree of pride in the project is widespread amongst the membership and is certainly not confined to those who live locally.
- Baywind is a similar example. Baywind has a national membership, with only about 35% ‘local’. This is due to the fact that it was the first of its kind and attracted national publicity in 1996. The membership is extraordinarily committed to the project even after 14 years, and has repeatedly proved that commitment by supporting the use of Baywind resources to encourage and facilitate further community ownership projects.
- In co-ops such as Fens the ‘local’ proportion can fall below 20%. The reason for this is the sparsely populated environment and the lack of a clear local focus. Even the group which originated the co-op was drawn from a 100km radius of the site reflecting the dispersed nature of the E. Anglian population. This makes share offers much more difficult to promote effectively. Local media is fragmented and local events at which to publicise the launch are less available and less effective as a promotional tool. In a case like this the proportion of members who are already members of another Energy4All Co-op (and therefore keen to support a new project) is probably higher. This has not affected the commitment of Fens Co-op members to their project; that commitment was clearly demonstrated by the high level of engagement in member consultations during complex negotiations to establish the project.

COMMUNITY OF INTEREST

It is important to note that although the proportion of ‘local’ people varies greatly, all Energy4All co-operatives are also ‘communities of interest’ in that no-one becomes a member without an interest in community ownership of renewable energy. For many members this is the over-riding consideration in joining the co-op.

Although Energy4All has never researched this aspect directly, we believe that the vast majority of members of our co-ops are not experienced investors. Building Society and bank accounts rather than stocks and shares are the norm for members’ money. Hence the decision to join one of our co-ops requires additional motivation, which is provided by the commitment to environmental issues, thus creating a genuine ‘community of interest’.

FSA FIGURES FOR ENERGY4ALL CO-OPS

The following financial figures for the ‘English’ co-ops are included at the request of DTA. The full returns are publicly available on application to the FSA.

A	Members at beginning of year	1320
B	Members ceased during year	15
C	Members admitted during year	0
D	Members at end of year	1305
E	Turnover for year	549,875
F	Total of income and expenditure (receipts and payments added together)	1,179,414
G	Net surplus/(deficit) for year	0
H	Fixed assets	1,602,278
I	Current assets	1,095,897
J	Total assets (equal to amount in row O, below)	2,698,175
K	Current liabilities	485,277
L	Share capital	1,993,567
M	Long-term liabilities	204,336
N	Reserves	14,995
O	Total liabilities (K+L+M+N) (equal to amount in J above)	2,698,175
P	Investments in other Industrial and Provident societies	7,300
Q	Loans from members	0
R	Loans from Employees' Superannuation Schemes	0
S	Dividends on sales	0
T	Share interest	131,860

A	Members at beginning of year	1305
B	Members ceased during year	6
C	Members admitted during year	0
D	Members at end of year	1299
E	Turnover for year	529,671
F	Total of income and expenditure (receipts and payments added together)	917,815
G	Net surplus/(deficit) for year	161,475
H	Fixed assets	1,409,594
I	Current assets	1,084,162
J	Total assets (equal to amount in row O, below)	2,493,756
K	Current liabilities	314,344
L	Share capital	1,993,567
M	Long-term liabilities	172,723
N	Reserves	13,122
O	Total liabilities (K+L+M+N) (equal to amount in J above)	2,493,756
P	Investments in other Industrial and Provident societies	15,300
Q	Loans from members	0
R	Loans from Employees' Superannuation Schemes	0
S	Dividends on sales	0
T	Share interest	161,475

A	Members at beginning of year	2367
B	Members ceased during year	1
C	Members admitted during year	6
D	Members at end of year	2372
E	Turnover for year	684,138
F	Total of income and expenditure (receipts and payments added together)	1,422,227
G	Net surplus/(deficit) for year	Nil
H	Fixed assets	7,582,555
I	Current assets	1,156,171
J	Total assets (equal to amount in row O, below)	8,738,726
K	Current liabilities	336,586
L	Share capital	4,606,981
M	Long-term liabilities	3,795,159
N	Reserves	Nil
O	Total liabilities (K+L+M+N) (equal to amount in J above)	8,738,726
P	Investments in other Industrial and Provident societies	Nil
Q	Loans from members	Nil
R	Loans from Employees' Superannuation Schemes	Nil
S	Dividends on sales	Nil

T	Share interest	105,460

WESTMILL CO-OP Y/E 31/10/09

A	Members at beginning of year	2372
B	Members ceased during year	1
C	Members admitted during year	0
D	Members at end of year	2371
E	Turnover for year	1,024,450
F	Total of income and expenditure (receipts and payments added together)	2,061,002
G	Net surplus/(deficit) for year	Nil
H	Fixed assets	7,219,260
I	Current assets	1,421,988
J	Total assets (equal to amount in row O, below)	8,641,248
K	Current liabilities	458,499
L	Share capital	4,606,981
M	Long-term liabilities	3,575,768
N	Reserves	Nil
O	Total liabilities (K+L+M+N) (equal to amount in J above)	8,641,248
P	Investments in other Industrial and Provident societies	Nil
Q	Loans from members	Nil
R	Loans from Employees' Superannuation Schemes	Nil

S	Dividends on sales	Nil
T	Share interest	122,895

FENS CO-OP Y/E 31/01/09

Note: Returns for Y/E 31/01/10 available shortly from FSA

A	Members at beginning of year	1078
B	Members ceased during year	0
C	Members admitted during year	3
D	Members at end of year	1081
E	Turnover for year	45,650
F	Total of income and expenditure (receipts and payments added together)	238,887
G	Net surplus/(deficit) for year	74,159
H	Fixed assets	4,359,972
I	Current assets	457,343
J	Total assets (equal to amount in row O, below)	4,817,315
K	Current liabilities	525,154
L	Share capital	2,665,639
M	Long-term liabilities	1,604,660
N	Reserves	21,862
O	Total liabilities (K+L+M+N) (equal to amount in J above)	4,817,315
P	Investments in other Industrial and Provident societies	Nil
Q	Loans from members	Nil

R	Loans from Employees' Superannuation Schemes	Nil

S	Dividends on sales	Nil

T	Share interest	Nil

QUALITATIVE RESPONSE TO COMMUNITY SHARES RESEARCH SURVEY 2010

1) N/A

2) **Sector?** – *Energy*

3) **Type of Investment?** – *Shares*

4) **When did you make the investment?** - *All investments are made at the initial Share offer launch unless, in a few cases, there is a supplementary launch to the members only (e.g. for a project extension). Share Offers normally run for up to 3 months and are then closed. All Energy4All Share Offers have met at least their minimum targets within the launch period, and some have been over-subscribed.*

5) **Have you withdrawn any shareholding?** – *This is not normally possible with Energy4All co-ops as the money is tied up in assets. If co-op members need to access cash urgently they can seek to sell their shares to another member, with the agreement of the board.*

6) **How likely are you to withdraw all or part of your shareholding within 10 years?** *All Energy4All co-ops are promoted as investments for the life of the project (20 years +). There has been no evidence to date of significant numbers of members wishing to withdraw their capital, although some co-ops have arrangements in place to permit this on a controlled scale after 5 years. Baywind has been operating for 14 years and there is only a trickle of requests to withdraw capital, almost invariably due to a death or (occasionally) changed personal circumstances. All the evidence suggests that this low rate of withdrawal is due to a) the pride of members in their investment b) the financial returns members have received consistently and c) the confidence of members in their board and in Energy4All as managers of the co-op and the project.*

7) **Which band does your investment fall into?** *An analysis has been done of the investment in our English co-ops. £250 is the minimum investment and it should be noted that as an investment of £500 is needed to trigger EIS tax relief; this will skew the results. From the 4,739 members of the 3 English co-ops, investment was as follows:*
   - *a. £250 9%*
   - *b. <£500 30%*
   - *c. <£1,000 25%*
   - *d. <£5,000 30%*
   - *e. <£10,000 3.5%*
   - *f. <£20,000 2.5%*

Needless to say, a profile by value is very different.

How satisfied are you with this investment? – *Satisfaction is hard to measure qualitatively. Energy4All's permanent office receives numerous calls from co-op members of which a tiny fraction express dis-satisfaction, usually at minor issues such as admin. errors. Members at General Meetings are often searching in their questions (there is a significant number of professionally qualified members) but hugely positive and supportive of the work of their co-op and of Energy4All. In our opinion, satisfaction is due to:-*

g. *The obvious ethical motivation of all involved and the 'social' returns.*
h. *The professionalism of the administration / management of the co-ops including clear and robust financial management. This is a vital source of credibility for Energy4All and a key factor in member satisfaction.*
i. *Regular and clear communications with members, especially if there are major issues of which the Members need to be aware.*
j. *The regular and generally attractive financial returns.*

8) **Which of the following applies to your satisfaction or otherwise in your investment?** *This touches on all aspects of the motivation of members for investing in the co-op and the extent to which the co-op has fulfilled those expectations. The following observations are based on long experience of talking to members and reports from the Energy4All office regarding routine communications with members. Comments are listed in the order they appear in the Questionnaire*

a. **Financial Returns** – *There is no doubt that without a reasonably assured financial return it would be impossible to raise the large amounts of long term capital required for energy projects, especially given the risks and variability in the sector. In this, we agree entirely with Findhorn (Ekopia Co-op) who use the Ben. Comm. model and have made similar comments (see attached notes).*

The extent of the required return is less easy to estimate…… .

All members expect a high degree of security; i.e. they expect their money to be managed professionally and not placed at unreasonable risk – they do not expect to lose it, although they accept there are risks in the sector. This aspect is crucial to further investment; if members feel their money is not being properly looked after, they will never invest in any future Offer.

Some members undoubtedly invest for purely ethical reasons, especially if they can tie the amount of investment to their own circumstances (e.g. sufficient to supply their own electricity usage). A few members probably invest for financial reasons, to supplement a pension etc, seeking a stable long term return from an ethical investment.

The average member is somewhere between these positions, wanting the investment to earn a reasonable return while also delivering on environmental and social goals. In current conditions we would estimate a reasonable financial return on such long term capital to be at least 5%. If general interest *rates rise we would expect the level of 'reasonable' return to rise also. Of Energy4All's English co-ops, Baywind is mature and returns have risen to nearer 10%; Westmill was a challenging project but despite poor wind conditions in 2009, it paid a return, to the obvious satisfaction of members, (over 100 of whom attended the AGM recently). Fens is still getting established; it has an exceptionally complex financial structure due to being part of a larger commercial project and this is delaying the first returns to members. Again members have been extremely supportive.*

The availability of EIS tax relief on the 'English' co-ops is an important additional financial incentive to prospective members.

Interestingly Energy4All's Scottish co-ops seem to expect a higher rate of return (nearer 10%). Energy4All's view is that this is due to the fact that the projects are stakes in large commercial ventures placed in remote Scottish communities. Hence the degree of operational engagement in the site is less and the expectation of a 'right' to a return (for having this project on their doorstep) is probably higher. However the great majority of members still seem to have strong ethical motivations for investing and would wish for more engagement if this was practicable.

b. **Support Local Business** – *None of Energy4All's projects was an existing business like a village shop or pub. Hence the degree of commitment to a local business is much less relevant. Of more significance is ….*

c. **Support Local Community** - *The importance of this factor varies widely. In some instances, especially where Energy4All was able to focus publicity on a defined area, thereby raising the percentage of local membership (e.g. Skye and Boyndie) there is undoubtedly a significant degree of local pride involved.*

d. **Good for the Environment** – *This is a critical factor for the great majority of our co-op members. It is almost impossible for an individual in the UK to have a say in their power supply. As a result there are numerous examples of co-op members expressing delight at 'being able to do something positive' to address global warming etc. This commitment is very evident at General Meetings. Some co-ops (e.g. Baywind, Fens, Westmill, Skye) have set up funds drawn from the co-op's income to start and support local environmental initiatives - members are reducing their own income to support environmental causes.*

e. **I had expected more financial / community / environmental benefits** – *This is very difficult to answer. As with any organisation there is a range of views among members and no doubt there are some who will support each of these statements. All that can be said is that we have no evidence of any widespread dis-satisfaction with the balance between financial, social and environmental benefits adopted by each co-op and administered by Energy4All.*

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9) **Professional Advice?** – *Energy4All share offers advise prospective members to seek professional advice. How many of them take up that suggestion is hard to estimate. The relative importance of non-financial motivations is probably a key*

factor; if a prospective member is investing for ethical reasons and is prepared to place money at risk for this purpose, then professional advice may be inappropriate. Our impression is that overall, few take professional advice.

10) **Source of Advice?:** *We have no evidence on the source of any advice.*

SUMMARY

- The Energy4All model for community ownership of energy is designed to create a community vehicle that is easily understood and which can raise the required capital.

- The IPS co-op model adopted meets this need; the use of regulated share offers delivers a degree of security that would be difficult to achieve in a less formal model.

- Members are asked to commit money for the long term (20 years or more) with only limited freedom to transfer or withdraw their shares. This creates particular problems.

- The formula that has been developed to achieve success with this model (over £14m of community equity raised) is based on a balance of key factors.
  In the opinion of Energy4All, these are:

  1. The Project – the heart of any share offer is that the prospective member must understand and support the project. Ethical motivation is probably the most important factor in members' decisions and the ethical proposition must be explained clearly and appeal directly to the concerns of the prospective member.

  2. Publicity – lack of awareness limits the amount of money that can be raised; securing publicity without spending large sums is a challenge. PR, word of mouth and sympathetic local organisations are all useful communication channels.

  3. Security – many prospective members are unfamiliar with stocks and shares (and also with co-ops, in many cases). Prospective members require reassurance that they are not throwing their money away or investing it foolishly. In Energy4All's experience, reassurance comes from

     - the professionalism of the Offer – in our opinion this is greatly enhanced by the use of a regulated Share Offer where the structure and content of the Offer Document is closely controlled and professionally presented. This alone justifies the high cost of the regulated Offer route. If a similar professional standard could be achieved using a low cost route this would be highly beneficial to the community ownership sector.
     - the established track record of similar launches, giving confidence in the outcome - unfortunately this is not available to communities doing a single launch without the help of an organisation like Energy4All.

  4. The Financial Return –In terms of personal return, although expectations vary according to the personal circumstances and degree of ethical motivation of the member, the average member investing for 20 years has an expectation of a financial return to <u>at least</u> maintain the real value of the investment after tax. Without the ability to deliver such a return, it is our opinion that raising the amounts of capital required for community ownership of capital intensive long term projects would be impossible. The requirement for the project to be

financially robust, is absolute. Note: the availability of EIS tax relief is an 'up-front' financial incentive which has a significant influence with some members.

5. Management – the professional management of the project is frequently overlooked as a source of member reassurance. The quality of administration, share register management, communication with members and financial accounting & reporting are all highly valued by members. We believe they contribute substantially to member satisfaction and willingness to invest in future projects. Such high quality management services do not come cheap, despite the economies of scale of the operation provided by Energy4All for its co-ops.

FOOTNOTE ON **EKOPIA CO-OP** – FINDHORN COMMUNITY

The **Ekopia Co-op,** based on the Findhorn community, is a long established Ben. Comm. with experience which parallels that of Energy4All in some key aspects. It is included here after discussion with DTA.

Energy4All has a seat on the board of the Findhorn Wind Park. Energy4All arranged a loan secured on Baywind's turbines to facilitate the construction of the Findhorn turbines.

Background

- Ekopia Co-op is a vehicle for raising funding for community ventures within the Findhorn Community. Its legal structure is a Ben. Comm. Society. Membership is drawn from members of the Community and its diaspora. Roughly 1/3rd of the 265 members do not live at Findhorn. The average total investment is around £2,500.

- Within Ekopia there are various funds raised through separate share offers made at different times and for quite separate purposes. The terms and conditions of each fund within Ekopia are distinct, so there are, in effect, 6 mini-co-ops within Ekopia:-

  - **The Phoenix shop** with a capitalisation of roughly £250k raised in £500 memberships. Members are entitled to 5% discount in the shop but this is of course of no value to members who do not live at Findhorn. There is currently no other return to members of this fund.
  - **The Wind Park** – again roughly £250k, invested at 6% in the wind farm. Repayments are unlikely to start until the loans from Caledonia Co-op and the Findhorn Foundation have been completely repaid, probably in 2013/4.
  - **The Foundation and NFD** – a small £50k fund.
  - **Housing** – a £100k fund paying 3% and with a nominal 5 year life. (Due to a shortage of investment, this fund is partially composed of borrowing, at 4%.)
  - **The Steiner School** – a small fund (£70k) raised to meet an immediate requirement from the established Steiner school.
  - **The Eco-Village –** A £100k fund whose money is used to support the other funds within Ekopia. (i.e. this fund is not additional to the sums quoted).

Share Offers

- Share offers are low key, low cost affairs of perhaps half a dozen pages. Malcolm Lynch is the legal advisor. The Offers are not publicised outside the community.

Motivations

- It is thought that many members think of their investment in primarily social rather than financial terms and some may not fully understand the detailed financial implications of investments. However…

- Ekopia’s view is that most members expect to earn a reasonable return (usually 3%-6%) while supporting worthwhile community initiatives. Recent low interest rates have made some Ekopia funds more attractive, but Ekopia’s experience is that altruism is not normally sufficient to overcome either a long fixed investment term and/or the absence of a competitive interest rate.

Withdrawal/Repayment

- Ekopia’s various shares are not transferable. The co-op’s experience is that it is very difficult to raise capital with a fixed term of more than 5 years, and even 5 years is beyond the acceptable limit for many investors, (some of whom may not stay within the community for that long). Therefore most Ekopia money is in principle withdrawable on reasonable request (normally at 6 months notice). In practice this is not always possible, so withdrawals are at the discretion of the board. For example while a good rate or return is accruing from the Wind Park fund, withdrawals are possible as other finance can usually be attracted. However investors in the Phoenix shop (which is not making profits) are unable to withdraw funding as replacement investment is not available. Understandably, this causes problems.

Summary

Ekopia Co-op is a very low-cost funding vehicle which seeks to balance reasonable returns with community benefits within a clearly defined community. It has found it possible to raise the required sums when reasonable interest rates are offered (roughly equivalent to Building Society rates), but difficult to raise long-term capital on this basis. It therefore relies on a turnover of finance to facilitate withdrawals.

Ekopia serves a valuable function within the unique circumstances of the Findhorn Community; whether it could be replicated widely outside such a well-established and motivated community must be open to debate.

Appendix 6

Financial Intermediary Interview

Wessex Community Assets has been contracted by the Development Trust Association to conduct research into the community share investor. The research hopes to answer questions around who is buying community shares; what their motivations are; what blend of social, environmental and financial return is required; and what can societies do to best market their community share issues to prospective investors. This is the first time research into these questions has been carried out on this scale. To date 240 questionnaires have been completed and 30 semi structured telephone interviews conducted with those buying community shares, interesting and useful findings are being revealed. As an addition to this research we would like to talk to financial intermediaries about who their clients are that are prospective community share investors; what these investors are looking for in terms of social, environmental and financial return, and what financial intermediaries require in order to introduce clients to community share offers.

The research is part of the national Community Shares action research project for the Department of Communities and Local Government, funded by the Office for Civil Society.

Questions:

- Do you have clients who are or might be interested in buying community shares?
- Have you previously introduced clients to community investment opportunities? If so, what was the process and what are your reflections on how it went?
- What do you think your clients are looking for in terms of community investment opportunities (balance of social, environmental and financial return, security, rate of financial return, level of liquidity required – i.e. withdrawal terms)?
- Are there any “no-no’s”? e.g. business start ups without security? Any types of sector? (listing the 5 main sectors we work with)
- What do you as the intermediary require to put a community investment proposal to your clients (e.g. lead in time, commission, length of time that share issue is open for, materials/documents, any other information)?
- How would you like to be kept informed of community share issues that your clients might be interested in?