November 2016

Community Shares

Investing in community shares

Investing in community shares is a simple, direct and engaging way of supporting businesses that serve your community.

Since 2009 over 120,000 people have invested over £100m to support over 400 community businesses throughout the UK. Many investors in community shares are first time investors. Community shares can save local shops and pubs, finance renewable energy schemes, transform community facilities, support local food growing, fund new football clubs, restore heritage buildings, and above all, build stronger, more vibrant and independent communities.

Interested? Read on...

long term finance they need to start and grow.

The number of new community share offers has grown from just seven offers in 2008 to 49 in 2012, and more than 100 new offers in 2015.
There are at least 36 community-owned pubs and micro-breweries in the UK financed by community shares. The largest of these is The Bell Inn in Bath where the 536

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community-owned shops in the UK financed by community shares.

FC United of Manchester, created by Manchester United fans protesting at the takeover of their club by the Pier Charity

Investment in community shares acc 14% of the total UK soc investment market in community sh 2015, worth over £427m.

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All about community shares

Investing in community shares is a practical way of supporting a business that serves your community. The share capital will help finance the business and, in return, you might receive limited interest on your investment. If you ever want your money back, you have the right to withdraw some or all of your share capital, subject to terms and conditions.

Community shares can only be issued by co-operative and community benefit societies. Members have just one vote, regardless of how much they invest, and there are limits on how much you can invest, to prevent the society being dependent on a handful of large investors. Your shares can never be worth more than you paid for them, but they could go down in value if the society gets into financial difficulties.

The main reason why people buy community shares is to support a community purpose, not to make a financial gain, which is why this type of share offer is not subject to financial promotion regulations. Being unregulated reduces red tape and helps to keep the cost of making a share offer affordable for communities. But it also means your investment is not covered by the Financial Services Compensation Scheme, and you have no right of complaint to the Financial Ombudsman.

In order to help societies make great community share offers, the Community Shares Unit works with societies and community shares practitioners to develop national standards of good practice. These standards are set out in the Community Shares Handbook and form the basis of the Community Shares Standard Mark.

Community Shares STANDARD

The Standard Mark is displayed on community share offer documents that have been awarded this nationally recognised good practice standard.

Share offers bearing the Standard Mark should:

- Have offer documents and application forms that are easy to understand
- Provide you with all the facts you need to make an informed decision
- Give you access to the annual accounts and/or business plan for the society
- Not say things that are purposefully incorrect, confusing or misleading

Societies are asked to sign a Code of Practice requiring them, among other things, to give you a right of complaint to the Community Shares Unit if you think there is something wrong with the share offer.

Investing in Community Shares will introduce you to community shares, and help you understand what to look for in a community share offer. It will tell you more about the Community Shares Standard Mark, and your rights and responsibilities as a member of a society. It provides information about the tax treatment of community shares, along with a guide to frequently used terms and frequently asked questions about community shares.

Find more information on the Community Shares Unit website: www.communityshares.org.uk

Society:

Pink Lane Jazz Co-op

Community share capital raised:

£124,000

Year established:

2013

Location:

Newcastleupon-Tyne

Members:

180

This is the first co-operative in the UK to own a music venue and education centre. It was set up to support the learning, performance and development of jazz related music and the arts through gigs and courses.

Investing in community shares

About the Community Shares Unit (CSU)

The Community Shares Unit is a standards setting body for community shares. It was established as a joint project by Co-operatives UK and Locality in 2012 and promotes good practice by awarding the Community Shares Standard Mark to community share offers. It also aims to support enterprises and raise awareness of community shares as a sustainable funding mechanism for community enterprises. For more information visit www.communityshares.org.uk

About Community Shares Scotland (CSS)

CSS is delivered by DTA Scotland in partnership with the Plunkett Foundation, the Community Shares Unit and Rocket Science. If you are based in Scotland, please contact Community Shares Scotland who have a host of support and resources available to help you launch a successful community share offer in Scotland. For more information visit www.communitysharesscotland.org.uk

About Community Shares, Ready!, Northern Ireland

The Community Shares, Ready! project is delivered by Co-operative Alternatives in Northern Ireland. The project was commissioned by the Building Change Trust. For more information visit www.coopalternatives.coop

About Community Shares Wales

Community Shares Wales is funded by Big Lottery Fund and delivered by the Wales Co-operative Centre. It will raise awareness of community shares across Wales and support people through the process of share issue, enabling them to develop local services and facilities at the heart of their community. For more information visit www.wales.coop

What are community shares?

Investing in community shares is a great way of supporting a community venture and becoming a member of a business that serves a community purpose. It might be a local shop, pub, or football club. It might be a building for community use, or a sports ground or community energy scheme. Or it could be a local food grower, a children's nursery, or a neighbourhood housing scheme. Community businesses are run by and for the community, and serve a wide range of social aims.

Before you buy community shares, it is important to know what the risks are. Like with any type of share, you could lose some or all of the money you have invested. But there are some important differences between community shares and shares in companies that you should know about.

Shares in companies

Many companies are financed by shares – they are a way of investing money in a business in return for a share of its ownership. Shareholders are protected by company law. You get a say in how the company is run, usually one vote for every share you own.

However, as a shareholder, you stand to lose money if the business gets into trouble. At worst you could lose all the money you invest, although your liability is limited to the amount you invest.

In return for taking this risk, you may get a share of the profits in the form of a dividend. You might also be able to sell your shares for more than you paid for them if the business is doing well. This is called a capital gain.

If you want to sell your shares it is up to you to find a buyer. Only large companies are traded on a stock market. The company is under no obligation to buy back your shares. Finding a buyer for your shares can be a problem, especially if the business is not doing well, or you only own a few shares.

Society:

GlenWyvis Distillery

Community share capital raised:

£2,533,510

Year established:

2016

Members:

2,452

GlenWyvis Distillery Community Benefit Society, based in the historic Highland town of Dingwall, realised its long-held ambition of creating Scotland's very first community-owned craft whisky distillery. Launched in conjunction with Community Shares Scotland, the community raised £2.5 million in community shares in less than three months. With an associated visitor centre also planned, this share offer will recreate Dingwall as a quality tourism destination.

Community shares

Community shares can only be issued by societies. Societies are subject to the Co-operative and Community Benefit Societies Act 2014 (or the Credit Unions and Co-operative and Community Benefit Societies Act (NI) 2016). This Act allows societies to issue community shares, or what the law calls withdrawable shares. They are called withdrawable shares because, when you want your money back, you can withdraw your shares from the society, subject to its terms and conditions. It is important to know what these terms and conditions are – they should be stated in a community shares offer document. You will need to give notice that you want to withdraw some or all of your money; notice periods range from one week to one year. The society might have a set limit on how much share capital can be withdrawn by all members during the year. If it is a new business, it might suspend the right to withdraw shares for the first three years or more.

As a community shareholder you may get a modest financial return to reward you for the risks you are taking. But the real reward will be a business that provides your community with the services, products and facilities it wants and needs.

Community shares are different from company shares. As a member you get one vote regardless of how many shares you buy. There is a legal limit of £100,000 on how much you can invest in a society, and small societies might set much lower limits so that they do not depend on a few big investors. All societies offering community shares have a rule that stops members from making capital gains if the business is sold or closed. You will never get more for your shares than you paid for them, and you could get less if the business is struggling. You might receive annual interest paid on your shares, but most societies have rules that set limits on interest rates, and will only pay interest if the society can afford to do so.

Another important difference between company shares and community shares is how their sale is regulated. The public offer of shares in companies is regulated by the Financial Conduct Authority. Community shares are not regulated. You have no right to make claims to the Financial Services Compensation Scheme if you are mis-sold community shares, nor any right of complaint to the Financial Ombudsman.

So, before you buy community shares, you should read the society's share offer document. It should fully explain the risks as well as the potential benefits for the community. And if it bears the Community Shares Standard Mark logo you know that it meets nationally recognised good practice standards.

Community Shares STANDARD

Society:

Ynni Ogwen Hydro

Year established:

2016

Community share capital raised:

£454,850

Members:

313

The principal objective of the Community Benefit Society Ynni Ogwen Cyf is to produce electricity from a sustainable source, namely hydroelectric power from Afon Ogwen. Any surplus income will be transferred to a community fund, which will be set up to fund other environmental and community projects within Dyffryn Ogwen.

"I've lived here for 50 years, and I've been watching the river flow and all that energy going to waste. Now there's a chance to

recognised standards of good practice.

The Community Shares Standard Mark

The Community Shares Standard Mark is awarded to share offers that meet voluntary standards of good practice. These standards ensure that:

- The offer document and application form are easy to understand
- You are provided with all the facts you need to make an informed decision
- The facts are supported by the annual accounts and/or business plan for the society
- Nothing in the documents is purposefully incorrect, confusing or misleading

The Standard Mark is a voluntary scheme developed by the Community Shares Unit, with the support of the Financial Conduct Authority (FCA).

The FCA does not approve or regulate community share offers that are exempt from the Financial Promotions Regulations. If you invest in community shares you have no right of complaint to the Financial Ombudsman or access to the Financial Services Compensation Scheme. Societies that apply for the Mark are assessed by a practitioner who is licensed by the Community Shares Unit. They review the offer document, application form, the constitution of the society, and supporting evidence such as the annual accounts and business plan. They decide whether the offer is based on good practice, but they are not required to assess the strength of the business plan or to decide whether it is a safe investment.

The Standard Mark is not a guarantee that the business will be a success. You could still lose some or all of the money you invest. It does not give you any right to financial compensation if things go wrong. The main reason most people buy community shares is to support the business and its community purpose. If you want to buy shares for purely financial reasons you may want to consult a financial adviser.

Societies are asked to sign a Code of Practice requiring them, among other things, to give the public a right of complaint to the Community Shares Unit. The Community Shares Unit will remove the Mark from offers where the society is shown not to be complying with the Code of Practice.

Microgenius is the portal for community share offers awarded the Standard Mark. For more information visit www.microgenius.org.uk to discover share offers that meet nationally

Society:

Portpatrick Harbour

Location:

Scotland

Community share capital raised:

£103,395

Year established:

2015

Members:

363

Portpatrick Harbour Community Benefit Society's main aim is to secure the integrity and appearance of the historic harbour of Portpatrick for the benefit of the community and all who love and visit it. It was the first 'Community Benefit Society' in Scotland to achieve both FCA registration and full charitable status with the Scottish charity regulator OSCR.

microgenius
the Standard Mark portal

How to complain

The types of complaint the CSU deals with

There are four main types of complaint the CSU can deal with relating to offer documents bearing the Community Shares Standard Mark:

- The offer document misses out important information
- The information in the offer document is purposefully wrong
- The offer document is confusing or misleading in some important way
- The society fails to respond to your complaint within a reasonable timescale, or you are unhappy with the response they have given

Get in touch with the society

It is important that you contact the society first and give them a chance to deal with the problem. Societies are required to respond to queries and complaints within four weeks. If you have problems contacting a society, we will help you.

Ask us to look at your complaint

If you feel that the society has not dealt with your complaint fairly, we can look into the problem for you. Please email communityshares@uk.coop or call 0161 214 1762 and we will help you to complete the form. We will let you know what we find out, and what we can do to put things right. We aim to respond within eight weeks of receiving a complaint.

Further help

The Community Shares Unit welcomes any complaint regarding community shares, but it can only take action if the society's share offer has been awarded the Community Shares Standard Mark. The Mark should be displayed on the offer document, and the offer listed in the Community Shares Directory: www.communityshares.org.uk/directory

The Financial Conduct Authority, the body responsible for registering societies, maintains a directory of all societies, see: mutuals.fsa.gov.uk. It has the powers to carry out inspections and investigations into a

society at the request of the society's members (see Your rights and responsibilities) and has the ultimate power to sanction the management or even to de-register the society. In Northern Ireland societies are registered by the Registry in the Department for the Economy.

Pioneer offer

You will only be made this type of offer if you are already a member of the society, or have expressed an interest in supporting the society. This type of offer raises high risk capital that will be spent on getting investment-ready.

Society:

Fibre for Rural Nottinghamshire (F4RN)

Location:

East Midlands

Year established:

2016

Community share capital raised:

£109,350

Members:

77

This share offer is bringing ultra-fast, symmetrical fibre optic broadband to rural communities, through 'fibre to the home' (FTTH)

Different types of share offer

Societies sell shares to recruit members and raise capital. The needs of a society will change as it grows and develops. For this reason, the Community Shares Unit has recognised four different types of share offer:

Membership offer

This is when a society invites you to be a member, but is not asking you to invest more than the minimum amount required for membership. This type of offer is typically made by new societies, to build membership before they are investment-ready.

Time-bound offer

This is a public offer where the society has set targets for the amount of share capital it needs to raise within a fixed time for a specific investment plan or project. This type of offer is only made by investment-ready societies.

Open offer

This type of offer can only be made by societies that are already trading. It allows new members to join existing members by investing in community shares. In this type of offer shares are withdrawable on demand, subject to terms and conditions.

The offer document should make it clear what type of offer is being made.

If the offer document bears the Community Shares Standard Mark logo, the offer will be listed in the Community Shares Directory (communityshares.org.uk/directory).

Standards for each type of offer

All offer documents, regardless of the type, should provide basic information about the society, explaining its purpose and objectives, how it is governed, and how share capital is to be used in the society. It should explain the terms and conditions for becoming a member, and for investing and withdrawing share capital. It should also provide public access to its rules, accounts and business plans, if appropriate. In addition to this, specific types of offer need to provide the following information:

Membership offer

A membership offer should only ask you to invest the minimum required for membership, typically between £1 and £25. It should say whether this share can be withdrawn when you stop being a member. Some societies issue membership shares that are not withdrawable. This means that when you stop being a member your share capital becomes the property of the society. The membership offer should also say whether it charges members an annual membership fee or subscription. This is part of the income of the society and is not withdrawable or refundable.

Pioneer offer

You should only receive this type of offer document if you are already a member of the society, or you have given your consent to receive communications from the society. Pioneer offers are usually made by new societies that need money to get investment-ready. The offer document should explain the purpose of the offer, how much money is being sought, the high-risk nature of the offer, and its timetable. It should outline the costs of researching its business proposal, developing a business plan, preparing a time-bound offer, and any other pre-start costs to be covered by the pioneer offer.

Time-bound offer

Time-bound offers are used to raise a target amount of capital to pay for a fully-costed investment project within a set timescale. The offer document should say how much capital is required, how it will be spent, and what, if any, other sources of finance will be used. There should also be a link to a business plan for the investment project.

There should be a minimum fundraising target for the share offer and you should be offered your money back if this is not reached within the set timescale. There should also be a maximum fundraising target – when this is reached the offer should be closed and no further funds accepted. The document should also state the minimum and maximum you can invest as an individual, along with the terms for withdrawing your share capital, as well as an opening and closing date for the offer.

The offer document should explain the society's position regarding interest on share capital, and tax relief for investors. Finally, there should be something about the track record of the society or its founders, directors and promoters that also identifies any potential conflicts of interest.

Open offer

Open offers can only be made by societies that have started trading, and that currently allow members to withdraw share capital. In addition to the basic information all societies should provide, societies making an open offer should provide information on its investment policies and capital position. This should include a summary of the interest rates paid on share capital and the flow of members and share capital in and out of the society.

The Community Shares Standard Mark is only currently available for time-bound offers and open offers.

Time-bound share offers

Time-bound share offers are the most common type of share offer. The Community Shares Unit sets standards for offer documents to make sure they are clear and easy to understand, and are backed up by supporting evidence.

Here is a guide to what you should look for in a time-bound offer document:

Purpose of the offer

The offer document should explain the purpose of the offer, saying how the money raised will be spent, and the benefits to members and the broader community. It should describe the activities of the society and explain how you can contribute to the success of the business. It should also explain the long-term plans for the society, and how this might affect the withdrawability of share capital.

Timetable

All time-bound offer documents should have an opening and closing date, which defines the time-bound period. It should also say what provisions, if any, have been made to extend the closing date if the offer does not meet its fundraising targets.

Fundraising targets

There should normally be at least two fundraising targets; a minimum target and a maximum target. If the offer fails to meet its minimum target, it will be deemed to have failed. If this happens, you will receive your money back, less any charges you have been told about. If and when an offer meets its maximum target, the offer is closed and no further applications are accepted. Some societies will also have an optimum target, in between the minimum and maximum targets, which is used as the headline figure to promote the offer. Occasionally, a society's minimum target will be zero, which means they will accept all investments up to its maximum target.

Eligibility for membership

The offer document should explain who can be a member of the society and whether there are any restrictions, such as age, geographic location or user relationship with the society.

Society:

The Bell Inn

Year established:

2012

Community share capital raised:

£750,000

Members:

536

The Bell is a historic free house and music pub on the edge of Bath city centre. It is owned by 536 of its customers, fans and workers under co-operative rules. The community bought the pub in July 2013 and it now has live music three times a week, real ales, pub games and even a laundrette.

"I'm not a regular at The Bell, but I like the music and the laid-back atmosphere. This isn't to do with the profit motive, it's about keeping something that's good alive in the community. I am a keen co-operator and I persuaded my housing co-op to invest in a £500 share as well."

Ric Jerrom

Investment limits

The document should state the minimum and maximum amount you can invest in share capital. These limits are specific to the offer and must be within the rules of the society and what is allowed by law.

Terms and conditions for withdrawal

It should say how much notice you must give of your request to withdraw some or all of your share capital. It should also say if the withdrawal of share capital is to be suspended, and for how long.

Financial returns

The society should state the maximum rate of interest it will pay on share capital and the basis for determining what, if any, share interest is paid in any given year. If the society is a co-operative, it should also explain its policy on dividends. The society should also mention if it intends to apply for any form of tax relief on behalf of investors (see Community shares and tax).

About the society

It should say whether it is a co-operative society or a community benefit society, explain how the society is governed, and your legal rights to participate in the affairs of the society. An established society should summarise its track record, financial history and current position. All societies should give some details of their current board and senior employees.

Further information

Societies should provide a website address or details of how to obtain copies of its business plan, governing document, and annual accounts if it has been established for two or more years.

Unregulated risk warning

All offer documents should explain that you could lose some or all of the money you invest, that you have no right to make a claim to the Financial Services Compensation Scheme, or recourse to the Financial Ombudsman Service.

Should you invest?

Here are the ten main questions you should ask yourself before you invest:

1. Do you support the business purpose? Does the business provide a product or service you need, want or value? Is it something that will benefit the whole community? Do you think it has the support of the community? 2. Can you afford to invest? Or, put another way, can you afford to lose some or all of the money you invest? Do you need to make money from your investment?

What is the minimum you can invest? What is the maximum?

3. Who is the offer aimed at? Are you part of that community? Is the community big enough to raise the target amount? Are there any age or geographic limits on membership? 4. Is it a good business idea? Unless the business works, and makes a profit, your money could be at risk. Do you know the people behind the business? Do they know how to run a business? Is there enough local demand to make the business successful?

5. Do you understand the offer document? Have you read the offer document from beginning to end? Did you understand the document, or were parts of it unclear, too technical or confusing?

6. How will the money be used? Does the offer document explain what the money will be spent on? Will the society buy assets it can sell if the business fails?

7. Are there other sources of money involved? Has the society applied for grants, loans or investments from other sources? If the society obtains funding from these other sources how will it affect your investment in community shares?

8. What happens if the offer isn't successful? What happens if the society fails to raise enough money for its plans? Does the offer document state the minimum it needs for the plans to go ahead? It should say it will return your money if the offer is not successful and should make it clear if it will deduct a fee for doing this. 9. What are the terms and conditions of investment? What are the terms and conditions for withdrawing share capital? Can you expect to receive interest on your share capital? How much notice do you need to give if you want to withdraw some or all of your money? Are all withdrawals suspended for an initial period?

10. What can you do to make sure the business is a success? Are there ways other than investing for the community to support the business? Does the society have plans to involve members and the community in the business?

Your rights and responsibilities

Society rules

Societies are first and foremost membership organisations. When you buy community shares you become a member of the society. Societies rely on active members to make the business work. As a member you have rights and responsibilities. These will be enshrined in the society's legal rules, backed up by society law.

The rules of all societies must be approved by, and registered with, the Financial Conduct Authority (FCA), or the Registry in the Department for the Economy for societies in Northern Ireland. The rules say what a society can do and how it must be run. The rules can only be changed with the support of members and the approval of the FCA or the Registry in the Department for the Economy in Northern Ireland.

The rules also say who can be a member, including any age restrictions. The law allows societies to decide the minimum age for membership.

Finding out about your society

The society should provide the following information on its website, or through some other means:

- The rules of the society
- Share offer document and application form (if the offer is currently live)
- Business plan connected to the share offer (if it is a time-bound offer)
- The annual report and accounts (current and historic)

You should also receive notice of any general meetings of the society, or decisions that require your vote. If it is an annual general meeting, you should also be sent a copy of the annual report and accounts. To keep costs down, your society may ask for your email address and your consent to electronic communications.

Society:

South East London Community Energy (SELCE)

Community share capital raised:

£251,127

Year established:

2015

Members:

135

Community Shares STANDARD

Taking action on climate change and fuel poverty lies at the heart of SELCE's business model. Generating renewable energy and providing advice and support for those struggling to pay their fuel bills and keep their homes warm in winter is their focus. SELCE aims to speed-up the renewable revolution by capitalising on the power of community.

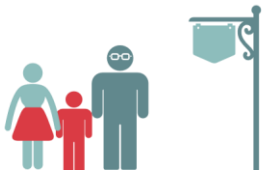
Your rights

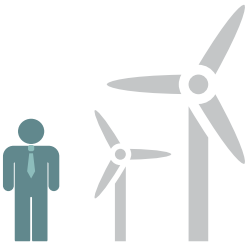
When you join a society, you should be told about your rights as a member. You have the right to:

- Withdraw some or all of your share capital, subject to terms and conditions
- Receive copies of the annual accounts and reports and notices of meetings
- Call for a general meeting with the support of other members
- Attend, speak at, and submit resolutions to general meetings of all members
- Stand for election to the management committee or board of the society
- Vote in elections for the management committee and on other important decisions, including rule changes
- Inspect your society's register of members and officers
- Contact other members and officers about matters to do with the society
- Resign as a member

You also have the right to tell your society who you would like to inherit your share capital. Societies must keep a record of all such nominations, and when you die your shares should be inherited by the named person. If you have less than £5,000 in share capital, it can be transferred by the society without any proof of probate from your estate.

Finally, you have the right to ask the FCA to inspect your society if you, and at least nine other qualifying members, think something is wrong. A qualifying member is someone who has been a member for at least one year. The FCA will appoint an accountant or auditor to inspect the society. The cost of the inspection will be met by the society, its officers, or the members requesting the inspection. The FCA will say who should pay what, and will publish the results of the inspection.





Your responsibilities

You should let your society know of any changes to your personal details. This includes changes to your email address if you have agreed to electronic communications. You may need to pay an annual fee or subscription to remain a member – you should have been told about this when you joined. Your society may have the right to deduct this fee from your share capital if you fail to pay.

Society:

Northern Ireland Community Energy (NICE)

Community share capital raised:

£154,000

Year established:

2014

Members:

86

NICE completed PV solar installations on 13 community buildings across Northern Ireland and followed this with a second share offer in 2016.

Your money

Your society should tell you its terms for withdrawing share capital. Many new societies do not allow any withdrawals for the first few years of trading. When withdrawals are allowed you will still have to give notice of a request to withdraw some or all of your money. This notice period may vary from one week to one year. There may also be rules restricting the total amount of share capital that can be withdrawn by all members in any one year. The society should explain how withdrawals are managed, and what you can expect.

Your society will keep a record of how much share capital you have. There will be a minimum amount you need in order to remain a member. There is also a maximum amount you are allowed to have. The legal maximum for individuals is £100,000. Some societies set a maximum amount below this legal maximum.

Many societies pay interest on share capital. Your society should explain its policies regarding interest on share capital in its share offer document. If your society has been trading for several years, it should also tell you about its track record of paying interest on share capital.

Some co-operative societies also pay dividends. Dividends are based on your trade with your society as a customer, supplier or employee. But community benefit societies are not allowed to pay dividends because any surplus must be used for community benefit instead.

Most societies will credit your share account with any share interest or dividend payments due to you, rather than sending you the money. You will be responsible for declaring this income to HMRC. The income tax treatment of share interest and dividend payments is dealt with in Community shares and tax.

Community shares are fully at risk. You could lose some or all of the money you invest. You have no right to compensation from the Financial Services Compensation Scheme, nor any right of complaint to the Financial Ombudsman Service.

Societies, like companies, have limited liability status. You will never be liable for more than you invest, and a society cannot make you invest more if you do not want to. If your society gets into financial difficulties it should let you know. It should suspend the right to withdraw share capital if it knows it cannot pay all its debts. If a society goes bust, the law says that any member who has withdrawn share capital in the previous twelve months can be asked to repay it, if it can be shown that the debts were incurred before the member withdrew the share capital. However, in such circumstances, the society should have already suspended share withdrawals, which would prevent this situation arising in the first place.

Society:

FC United of Manchester

Year established:

2005

Location:

North West

Community share capital raised:

£2,000,000

Members:

2,000

"We've stood up and we've made it ourselves. It's what supporting a football team is all about, you can say it's grassroots, it's fan-owned football. The future is owned by the fans."

Alec Robinson
(Goalkeeper, football club owner)

Getting involved

The success of your society depends on members like you getting involved. Simple ways to get involved are to be a loyal investor and customer. You can keep yourself informed about what the society does by reading its communications and many societies run events to help members find out more about what the society does.

Lots of societies rely on member volunteers. Volunteers can help societies keep costs down, or provide a better service.

You can help in lots of ways, ranging from the routine and practical, through to highly expert and unique contributions. Societies need active members. They need you to attend annual general meetings, take part in elections, and vote on other matters put to the members. The rules of your society will set a minimum for the number of members that must attend its meetings.

You can ask for a matter to be considered at a general meeting. This will usually require you to submit a written resolution in advance of the meeting, so that other members can be notified. You can ask for an extraordinary general meeting if you think the matter is too urgent to wait until the annual general meeting. Your society's rules will probably say how many members you need to support your call for an extraordinary general meeting.

Your society will be run by a management committee that is responsible for taking all major decisions between general meetings. Larger societies may employ a manager or a management team to run the society, under the direction of the management committee.

The management committee is elected by all members. The rules will say who can stand for election and how these elections are run. Becoming a management committee member is a big responsibility and most societies will offer training and support to new management committee members. They may have other simpler ways you can get involved to begin with, which will give you the chance to find out if you would like to like to serve on the management committee.

Community shares and tax

Her Majesty's Revenue and Customs (HMRC)

HMRC is responsible for collecting taxes in the UK. Tax can be a complex matter. Some of the basics of tax and community shares are outlined here, but there may be areas where it doesn't go into enough detail and you will need further information. Also, tax laws change frequently, so it is possible this information might be out of date by the time you read it. If you are in doubt you should contact HMRC or ask a professional tax adviser.

Most questions about income tax can be answered by contacting HMRC. You need to quote your National Insurance number when you get in touch.

Contact:
Pay As You Earn and Self Assessment
HM Revenue and Customs
BX9 1AS
United Kingdom Telephone:
0300 200 3300
www.gov.uk/hmrc

Income tax

Interest on share capital is liable for income tax. Your society will not deduct income tax from the interest it pays you. It is up to you to tell HMRC about all your sources of income, including your income from societies. Your society has to give HMRC details of any member who receives interest in excess of £250 a year. You still have to pay income tax even if you donate your interest to your society, or if your interest payments are credited to your share account.

Interest paid on withdrawable shares in societies is eligible for the new Personal Savings Allowance (PSA), introduced on 6 April 2016. The PSA applies a new 0% rate for up to £1,000 of savings income received by a basic rate (20%) taxpayer, or up to £500 of savings income for a higher rate (40%) taxpayer. The PSA does not apply to savings income received by 45% additional rate taxpayers. If you pay income tax through a Pay As You Earn (PAYE) code and your total untaxed income from savings and investments is less than £2,500 a year, you can request that any tax you owe is collected through your tax code. If your untaxed income is more than £2,500 a year you will need to complete a Self Assessment tax form. You will also need to complete a Self Assessment tax form to claim tax relief (see below).

Dividends payable to a member of a co-operative society may or may not be liable for income tax. If the dividend is based on your purchases from the society, HMRC may regard this as a discount, and not treat it as taxable income. But dividends based on other types of trade might be treated as taxable income. If you are in doubt then ask your society to check with HMRC.

Inheritance tax

In most cases, community shares qualify for 100% relief from inheritance tax. This is known as Business Property Relief. This relief is not available if the society does not provide any form of financial benefit to shareholders. This might be the case for some charitable community benefit societies and societies that have stated they will never pay interest on share capital.

Tax relief schemes

When you buy community shares you may be eligible for tax relief. Some relevant tax relief schemes include:

- Enterprise Investment Scheme (EIS): the largest of the schemes
- Seed Enterprise Investment Scheme (SEIS): only for new enterprises under two years old
- Social Investment Tax Relief (SITR): only for certain types of social enterprise

Your society should tell you if their share offer is eligible for any tax relief schemes. Most societies will find out in advance if their share offer will qualify for tax relief, and

will mention it in their share offer document. Some new societies might qualify for SEIS for the first £150,000 of share capital they raise, with amounts above this qualifying for EIS.

Each of the three schemes provide relief from income tax. For EIS and SITR the tax relief rate is 30%. This means that for every £100 you invest, you get £30 deducted from your income tax bill that year. For SEIS the tax relief is 50%, so for every £100 you invest you get £50 off.

There are limits on the amount of income tax relief you can get in any one year. Currently, this is £300,000 per annum from EIS and SITR, and £50,000 from SEIS.

There is no lower limit to the amount of tax relief you can claim. Connected persons are not eligible for tax relief. Connected persons include:

- Employees and paid directors of the society
- Anyone with more than a 30% stake in the capital of the society
- The spouse or a close family member of a connected person

All three tax relief schemes also provide relief from Capital Gains Tax. This includes 100% relief on any capital gains made from the actual investment. But as it is not possible to make a capital gain from community shares this aspect of tax relief is not relevant.

If you already pay Capital Gains Tax on other investments, some of the reliefs available through these schemes may be relevant to your investment in community shares. For instance, all three schemes provide Capital Gains Tax Deferral Relief. This means if you buy community shares using capital gains made in another investment you can defer any Capital Gains Tax due until you dispose of your community shares. SEIS also qualifies for Capital Gains Reinvestment Relief. You do not pay Capital Gains Tax at all on 50% of the capital gains you reinvest in an SEIS scheme.

Finally, all three schemes allow you to offset any losses you make on the investment against your tax liability. If you withdraw your shares for less than you paid for them, you can offset these losses against capital gains you make on other investments, and reduce your Capital Gains Tax liability. Or you can apply for Share Loss Relief against your income tax liability. This reduces the amount of income subject to income tax by the capital losses you incur. In all cases, the original tax relief benefit will be included to partly offset the capital loss.

Claiming tax relief

If the society is eligible for tax relief it will send you an HMRC claim form when it has met all the requirements. This will take at least four months after the share offer has closed, and could take up to a year or more. HMRC Helpsheet 341 www.gov.uk/government/publications/enterpriseinvestment-scheme-income-tax-relief-hs341self-assessment-helpsheet explains how to claim income tax relief under the Enterprise Investment Scheme. You can claim the tax relief for the year in which the shares were issued to you, or you can carry it back to the previous tax year.

If you normally pay income tax by PAYE and the total tax relief you are claiming is less than £5,000 then you should be able to get this tax relief in one of two ways. If it is for tax relief against your income in the current financial year, you can apply for an adjustment to your PAYE code, which means the relief will be spread out over the remaining part of the year. Alternatively, you can carry back the relief to the previous year, in which case you will receive the tax relief as a lump sum repayment.

If you are claiming more than £5,000 in tax relief and you currently pay income tax through PAYE, you will be asked to complete a Self Assessment tax form. If you already complete a Self Assessment form then you can add a tax relief claim the next time you submit this form.

Frequently asked questions

What are community shares? Community shares are a type of share capital that can only be issued by societies registered under the Co-operative and Community Benefit Societies Act 2014 (or the Credit Unions and
Co-operative and Community Benefit Societies Act (NI) 2016). Community shares are nontransferable, withdrawable shares in a society with an asset lock. The rules of the society should clearly state these features. The Community Shares Directory lists all societies known to have rules capable of issuing community shares.

What is the Community Shares Unit? The Community Shares Unit was established as a joint project by Co-operatives UK and Locality in 2012 with funding from the Department for Communities and Local Government. Its remit is to promote good practice in the use of community shares to finance enterprises that serve a community purpose.

What is the difference between a co-operative and a community benefit society? Both types of society come under the same law. A co-operative conducts business for the benefit of its members, while a community benefit society conducts business for the benefit of the broader community. There are some important differences between them. Only co-operative societies can distribute profits to members in the form of a dividend based on their transactions with the cooperative. Only community benefit societies can opt for an asset lock enforced by law.

What is an asset lock?
An asset lock is a provision in the rules of a society that prevents it from distributing any residual assets of the society to its members, in the event of the society being sold, closed or converted into a company. This means that members cannot make a capital gain from the sale or closure of the society. If an asset-locked society is closed or sold, then any residual assets must be transferred to a similar asset-locked body. All registered charities and Community Interest Companies also have asset locks enforced by law.

Can a society be a charity?
A community benefit society can be a charity, but a co-operative society cannot be. In Scotland and Northern Ireland a community benefit society can be a registered charity. In England and Wales a charitable community benefit society cannot be a registered charity; instead it is an exempt charity and is recognised as such by HMRC for tax purposes.

Can anyone buy community shares? All societies have rules about who can be a member. These rules should be described in the share offer document. Most societies set a minimum age limit – this is usually 16, although the law allows a person of any age to be a member of a society. If a society allows people under 16 to be members, they will be able to own community shares but will not be able to withdraw any shares until they are 16.

What is the minimum amount I can invest? The share offer document should say what the minimum investment is for that offer. The minimum shareholding for membership will be stated in the rules. There is no legal minimum amount. Some societies offer membership for as little as £1 or £10. But societies that are trying to raise large amounts of capital may set a minimum at anywhere between £100 and £1,000.

Society:

Ethical Consumer Magazine

Community share capital raised:

£162,490

Year established:

2008

Location:

Manchester

Members:

143

Is there a maximum limit?
There is a legal limit of £100,000 on the amount of share capital a person can own in a society. Many smaller societies set much lower limits so that they do not depend on a few big investors. The offer document should say what the maximum limit is for the society.

Do I qualify for tax relief if I buy community shares?
There are three different tax relief schemes that a community share offer might qualify for. See Community shares and tax for more information.

Can I withdraw my shares when I want to? The share offer document and the society's rules should state the terms of withdrawal. You may have to give notice of your request, which might range from one week to one year. There might be a limit on the total share capital that can be withdrawn by members in a given year. Most societies have rules that give the directors the powers to suspend the withdrawal of share capital if they think withdrawal would badly affect the society.

What can I do if my society won't let me withdraw my shares?

What are the risks of buying community shares? As with all shares, you risk losing some or all of the money you invest in community shares. Selling community shares is exempt from government regulation. This means you have no right to make a claim to the Financial Services Compensation Scheme or the Financial Ombudsman Service.

What are my community shares worth? Unlike transferable shares in companies, community shares can never go up in value, but they can go down. You cannot make a capital gain by investing in community shares. Community shares are withdrawable, and most societies aim to allow members to withdraw shares at the price they paid for them, as soon as the business is stable. But if a society is making sustained losses, it might discount the value of shares on withdrawal to reflect the drop in the net asset value of the business. This arrangement will be stated in the society's rules.

Can I sell my community shares? Community shares are withdrawable, nontransferable shares. This means that you can withdraw some or all of your shares, subject to terms stated by your society. But you cannot sell or transfer your shares to another person.

You can always resign as a member, in which case the society will convert your shares into an unsecured loan. You might be able to agree terms for the repayment of this debt. If not, it will be down to you to recover this debt, possibly by making a court claim. A court will take into account what the society says about the withdrawal of share capital in its rules and offer document.

Can I give my shares to someone else? You cannot give your community shares to another person during your lifetime. You can tell your society who you would like to inherit your shares and if you

Northern Ireland these powers are held by the Registry in the Department for the Economy.

have less than £5,000 in share capital, this will be inherited without proof of probate.

Can I buy shares for someone else? You can pay for someone else's shares but they must consent to becoming a member of the society.

What happens if my society gets into financial difficulties?
You could lose some or all of the money you have invested. As a shareholder you are last in the line of creditors. If the society goes bust you will only get your money back if and when all other creditors have been fully refunded.

Frequently used terms

This is a guide to terms you might come across in community share offer documents.

Can I have a say in how the society is run? Societies work to the principle of one member, one vote. You will be invited to attend the annual general meeting, to vote in elections for directors, and vote on any other important decisions.

What can I do if my society is badly run? As a member, you have the right to challenge the actions of the management committee through a general meeting. You can do this by raising the matter as a resolution put to a general meeting. If you cannot wait until the annual general meeting you can always try to call for an extraordinary general meeting. All societies are required to have rules about meetings, and these rules will usually say how to put a resolution to a general meeting and how to call for an extraordinary general meeting.

What can I do if I think my society is breaking its own rules?
You could ask the Financial Conduct Authority (FCA), as the registrar of societies, to carry out an investigation. You will need to have been a member for at least one year, and have the support of at least nine other such members. The FCA will charge for this inspection and it has the powers to apportion the costs between you and your fellow complainants, the directors and the society. In

What happens if my society is sold or closed? If there is any money left after all other creditors have been fully refunded, you will as a shareholder get some or all of your money back. If there is any money left after all member shareholders have been fully refunded, it will be transferred to another asset-locked body, as stated in the rules of the society.
Asset lock: A rule that prevents members from making a capital gain by selling or closing the business for a profit. If the society is sold and closed and there is any money left over after everyone has been paid what they are owed, then this money must be transferred to another asset-locked body. All charities and community interest companies are required by law to have an asset lock. Community benefit societies can opt for either a statutory or voluntary asset lock. There is no legal provision for asset locks in co-operatives, but they can and do adopt a voluntary asset lock when issuing community shares.

Authorised adviser: A professional who has been approved by the Financial Conduct Authority to provide advice.

Bond: A debt security, under which the issuer owes the holders and is obliged to pay them interest and to repay the principal according to a fixed schedule. Interest is usually payable at fixed intervals. Very

often the bond is negotiable so that ownership can be transferred.

Capital gain: A financial return for investors based on an increase in the value of an asset such as share capital. It is not possible to make a capital gain from community shares, but it is possible to make a capital loss.

Charitable community benefit society: A community benefit society with exclusively charitable objects and a charitable asset lock. In Scotland and Northern Ireland this type of society can register as a charity with the Office of the Scottish Charity Regulator or the Charity Commission for Northern Ireland. The Charity Commission for England and Wales does not register charitable community benefit societies; instead such societies in England and Wales must seek recognition as exempt charities from HMRC.

Community benefit society: A legal entity registered under society law that aims to serve the interests of the broader community, beyond its own membership. They can pay interest on share capital but they cannot use any profit to pay a dividend to members. They can opt to have either a legal or voluntary asset lock.

Community Interest Company (CIC): A type of company, subject to the community interest company regulations. Community interest companies, along with all other types of company, cannot issue withdrawable share capital.

Community shares: Defined by the Community Shares Unit as "withdrawable, non-transferable share capital in an asset-locked society".

Community Shares Handbook: An online publication setting out good practice in the field of community shares, written and maintained by the Community Shares Unit under the supervision of a Technical Committee, which includes representatives from the Financial Conduct Authority.

Community Shares Standard Mark: A voluntary scheme run by the Community Shares Unit to recognise community share offers that meet good practice standards as set out in the Community Shares Handbook.

Community Shares Unit: A standards setting body for community shares. It promotes good practice by awarding the Community Shares Standard Mark to community share offers.

Co-operative and Community Benefit Societies Act 2014: A body of legislation that, like company law, provides limited liability status to a corporate entity. There are two types of society, a co-operative society and a community benefit society. Both types of society can offer membership through the sale of shares. All members have one vote each, regardless of how many shares they have purchased.

Co-operative and Community Benefit Societies (Northern Ireland) Act 1969: This Act sets out society law in Northern Ireland and is equivalent to the Co-operative and Community Benefit Societies Act 2014, which applies to the rest of the UK.

Co-operative society: A legal entity, registered under society law, serving the mutual interests of its members. They can use some of their profit to pay interest on share capital and a dividend to members. They should have a voluntary asset lock if they intend to issue community shares but there is no provision for a statutory asset lock.

Crowdfunding: The practice of funding a project or venture by asking for contributions from a large number of people, typically via the internet. There are four main forms of crowdfunding, based on different forms of financial contribution: donations, rewards (or advance purchase), loans, and equity investment. Some crowdfunding internet platforms offer community shares and are exempt from regulation by the FCA.

Debenture: A type of loan agreement, which is secured against a list of specific assets owned by the organisation.

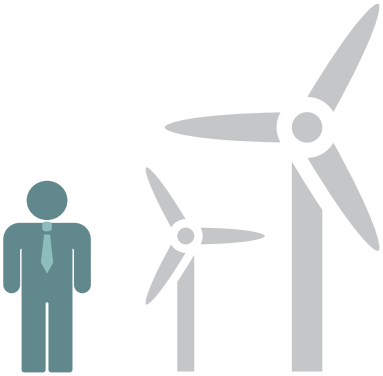
Dividend: A share of the profit paid to members based on their transactions (purchases, sales, wages etc.) with the society. Not to be confused with dividends in companies, which are paid to shareholders based on the number of shares held. Only co-operative societies can pay dividends to members; community benefit societies are not allowed to distribute profit in this way.

Enterprise Investment Scheme (EIS): A form of tax relief available to investors buying shares in small unlisted enterprises.

Financial Ombudsman Service: The official independent expert service in settling disputes between consumers and businesses providing financial services.

Financial promotions: Any kind of communication that invites the audience to engage in investment activity. Financial promotions are regulated by the Financial Conduct Authority and are subject to a range of regulatory orders. Community shares are exempt from financial promotion regulations.

Financial Services and Markets Act (FSMA) 2000: The legislation that created the Financial Services Authority, and established a new regulatory environment for the financial services sector. The Financial Services Authority was replaced in 2013 by three new financial regulators, including the Financial Conduct Authority.



Financial Conduct Authority (FCA): The body that registers new co-operative and community benefit societies and collects annual returns from existing societies (in Northern Ireland societies are registered by the Department for the Economy). The FCA also regulates the financial services industry, including financial promotions (see above). Societies offering withdrawable share capital are normally exempt from these regulations.

Financial Services Compensation Scheme: A fund of last resort for customers of FCAauthorised financial services firms. If a firm becomes insolvent or ceases trading, the scheme may compensate for losses up to £75,000 for people who have purchased deposit accounts, investments or home finance. Societies selling community shares are not covered by the Financial Services Compensation Scheme.

Industrial and Provident Societies Acts: The old name for the Co-operative and Community Benefit Society Legislation. Industrial and provident society legislation dates back to the nineteenth century, and provided the legal framework for bona fide co-operatives and societies for the benefit of the community.

Interest: Interest is the term normally used to describe the money paid to members based on the amount of share capital they have invested. The interest rate payable by societies is subject to limitations; the FCA says that interest rates should be no more than what is “sufficient to attract and retain the investment”. Interest payments are not to be confused with dividends, which have a different and specific meaning within co-operative societies.

Loan stock: Usually refers to an unsecured loan carrying a fixed interest rate.

Licensed practitioner: The term used by the Community Shares Unit to describe a person who has been licensed to award the Community Shares Standard Mark on behalf of the Unit. Licensed practitioners are trained, assessed and monitored by the Community Shares Unit. A directory of licensed practitioners can be found on the Community Shares Unit website.

Member: A shareholder in a society or company. Members are part owners of the enterprise and have rights over all its assets, subject to an asset lock in the case of societies issuing community shares. Members also have voting rights.

Membership offer: A type of share offer where the aim is to recruit members rather than raise money. Shares have a fixed and limited value, usually £1 or £10, and you may also be required to pay an annual subscription to maintain your membership. The rules of some organisations say that if you stop being a member, you forfeit your share.

Money Laundering Regulations: Laws requiring businesses that handle deposits and investments to make identity checks to prevent money laundering. Co-operative or community benefit societies offering withdrawable share capital are exempt from these regulations, although some societies may still carry out identity checks, especially if they accept overseas or international online payments.

Nominations: A practice found in some share offer documents where investors are invited to nominate a person who will inherit their shares in the event of their death. This is a voluntary arrangement, although every society is legally obliged to keep a record of all members' nominations.

Offer document: A term used to distinguish community shares marketing materials from the approved prospectus that companies may produce under the Prospectus Regulations 2005.

Open offer: A type of share offer that should only be made by organisations that have been trading. Unlike a time-bound offer there is no target amount or timescale, but you should be told about the investment policies of the organisation and why it wants you to invest. In particular, you should be offered copies of the annual accounts and reports for the previous three years, so that you can study its past social and financial performance.

Pioneer offer: A high-risk type of share offer that should only be made to existing members or known supporters of the venture. The aim of this type of offer is to raise cash to cover the research and development costs entailed in getting the organisation investment-ready.

Practitioner: See Licensed practitioner.

Prospectus rules: Regulations overseen by the Financial Conduct Authority determining how shares and other financial securities are offered to the public. Community share offers are not subject to the

prospectus rules.

Reinvestment: Instead of sending out annual interest or dividend payments to members, some societies add this money to members' share accounts, effectively reinvesting the money in the business.

Rules: The name given to the governing document of a co-operative or community benefit society, equivalent to the Memorandum and Articles of Association (Mem & Arts) of a company, setting out the purpose of the society and how it will be governed. Rule changes must be approved by members.

Secured loan: Similar to a debenture, where the borrower has provided a guarantee or title to an asset in the event of their default on the loan.

Seed Enterprise Investment Scheme (SEIS): A higher rate of tax relief than EIS, available to investors buying shares in new enterprises under two years old. Enterprises raising share capital through SEIS can raise additional share capital under EIS.

Social Investment Tax Relief (SITR): A tax relief scheme for investors in charities, community interest companies and community benefit societies only. Investment can be in the form of shares or unsecured debt.

Subscription: This term can have two distinct meanings: some societies charge members an annual membership fee, which they call a subscription; or it can refer to the practice of members buying shares in instalments over a period of time.

Time-bound offer: This refers to an offer that seeks to raise a target amount of money by a target date, in order to finance a major investment project. A time-bound offer might be made by an organisation that needs start-up funding, or an established organisation with plans to grow. If the fundraising targets are not met, the organisation should offer to refund your money, and not use it for other

purposes. You should also be offered access to their business plan and their rules (see Rules).

Transferable shares: Transferable shares cannot normally be withdrawn from a society; instead, the member must find a willing buyer, at a price acceptable to both parties. Some societies issue shares that are both transferable and withdrawable, subject to terms and conditions that should be clearly stated by the society issuing the shares. However, these are not classed as community shares and are outside the scope of the Community Shares Unit.

Unsecured loan: Usually refers to a debt agreement where the borrower has not offered any assets or guarantees in the event of them defaulting on the loan.

Withdrawable shares: A type of share capital unique to co-operative and community benefit societies, where members are allowed to withdraw their share capital, subject to terms and conditions set out in the society's rules. This will usually include a minimum period of notice of withdrawal, and provision for the directors to prevent withdrawal if, in their judgement, it would jeopardise the finances of the society. Withdrawable shares cannot go up in value, and some societies have rules that enable societies to reduce the value of their shares if the enterprise is performing poorly.