

# Community Shares

## A response from the Community Shares Unit on the Consultation on the English portion of dormant assets funding

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The **Community Shares Unit** is a partnership of Co-operatives UK, Locality and Plunkett Foundation and based at Co-operatives UK.

**CO-OPERATIVES UK**



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## Summary

There is a compelling case to use Dormant Assets to back social investment products like community shares, by providing wholesale investment into the market. We are proposing a £40m Dormant Assets wholesale facility to the community shares marketplace, which would fill a gap for patient institutional investment into community backed projects.

- There are already established routes to bring wholesale dormant accounts money into the community shares market. Co-operatives UK manages the largest community shares matched equity investment fund and is the ideal delivery vehicle to manage this investment into communities.
- The Adebowale Commission has identified enterprise centric products at the Frontier end of the social investment market like community shares as priorities.
- Patient institutional matched equity investment in community share offers through the likes of our Booster Fund would incentivise local investment from individuals (the Booster Fund backs share offers with matched equity, so for every £1 they raise, Booster will match that on the same terms up to an agreed limit)
- It would lever in significant untapped private investment from local community investors and other institutions, likely doubling or tripling the investment (Currently our fund is seeing £3 invested by communities for every £1 we invest). This is a unique way of levelling up by combining public, private and community investment.
- Community shares are shown to be a resilient form of finance; 92% of societies who have raised money through community shares are still trading
- They are a more accessible form of social investment that can start small and grow, and one that can work in disadvantaged areas
- Community shares generate broad community ownership, a sense of renewed pride in communities and a genuine method of enabling community power, as investors become voting members of the society with a stake and voice in future success
- We have shown that institutional investment can also be successful in helping investment into diverse communities, backing the community energy that already exists (40% of our investments have gone to the 30% least affluent communities)
- It would ideally complement the Community Ownership Fund, the Levelling Up agenda and any new community wealth funds

## About the Community Shares Unit

The Community Shares Unit is led by Co-operatives UK in partnership with Locality and Plunkett Foundation and working closely with Power to Change Trust. Over the last decade we have seen the community shares market grow, with over £200m raised in community shares from over 125,000 investors in communities across the UK. We track market data, provide advice, train practitioners, promote community shares and ensure standards are maintained in this unregulated market.

We are also a social investor ourselves, investing through our Booster Fund<sup>1</sup>. We fill a unique gap in the market; making institutional equity investments into community share offers, to incentivise local investment from individuals. Community shares are a distinct social investment product that fills an important role that loan finance and grant funding alone do not service.

### **About community shares**

Community shares are withdrawable share capital, unique to co-operative and community benefit societies. This distinct form of patient equity investment has helped communities raise investment to save and expand vital community assets like community pubs, shops, swimming pools, heritage buildings and sports facilities. Community shares enable people to bring vital social infrastructure into long term community ownership, empowering residents to have a say in the running of these facilities.

As community shares need to use a co-operative or community benefit society legal structure, they are inherently democratic providing one vote per member regardless of the individual amount invested. They enable long term, patient, aligned investment directly from residents into spaces and places communities care about. This connection is unlike more traditional social investment, as the investors in community shares have an inbuilt incentive to buy from, support and use the organisation's services. It also devolves governance and empowers communities to take control of facilities they care about.

Investors in community shares can request to withdraw their investments in due course, and can be offered interest on their investments or in some cases a dividend. As investors, they become members of the organisation and have a say in the running of the business.

We have tracked 700 share offers over the last decade. Community shares has proved a resilient business model, with 92%<sup>2</sup> of societies who have run a share offer still trading. Community shares enable communities to evidence demand for their services and lever in further investment. Investing in community shares effectively doubles the total; we have found for every £1 invested by communities an additional £1.18 is leveraged on top through grants, loans and other investment.

Community shares can be a more accessible form of social investment for new and smaller community organisations, with raise levels and interest rates set by the community. As a form of risk capital, they do not necessarily need to evidence a track record, offer security or meet loan to value or affordability ratios that lenders might traditionally look for. Instead, they have to reach out and stand in front of their community to make their case.

### **Boosting the community shares market**

Since 2017 the Community Shares Unit has helped diversify and grow the community shares market. Through our Booster Fund we have resourced the development costs of share offers, and targeted institutional investment at less affluent communities. We co-invest alongside communities, pound for pound; with investments held and managed by Co-operatives UK. This provides momentum and reassurance that share raises can succeed.

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<sup>1</sup> <https://www.uk.coop/support-your-co-op/community-shares/support/booster-fund>

<sup>2</sup> <https://www.uk.coop/blog/understanding-maturing-community-shares-market-report-2020>

We have been a radical but successful outpost of the wider social investment market. We have helped a whole range of communities to believe they can raise investment themselves and build resilient and vibrant community owned businesses delivering a whole host of social outcomes.

Through our Booster Fund we have to date co-invested, alongside over 13,200 community investors, in 58 community share offers. We target investment at communities building resilient business models to run community facilities. Recently there has been a strong correlation with Community Ownership Fund grant awardees<sup>3</sup>, many who have used community shares for their match investment requirement. One third of round one Community Ownership Fund awardees were using community shares, with reach across each UK nation. Initial analysis suggested of those using community shares at round one, the total amount invested by the Community Ownership Fund was at least matched by community investment through community shares. Additional investment through other grants and loans, and significant volunteer time would have been levered in as well. Community shares are enabling a unique and visible opportunity in communities to pool private, community and public investment.

Unlike other forms of social investment, community shares are not all about the money. As a democratic structure, in a unique way they combine social capital, community power and pride. The average number of investors in community pubs is around 190<sup>4</sup> but for other business models can be significantly more. 1,329 people invested in saving the Ultimate Picture Palace<sup>5</sup> in Oxford. 454 people invested in Nudge Community Builders' latest share offer to bring the derelict Millennium building back to life. This has also enabled significant private investment to be levered in through a partnership with a private developer. Community shares can be the answer where market failure and the public sector alone cannot solve complex, but locally valuable community facilities.

Our 58 matched equity investments in community shares to date have leveraged in significant additional capital from community investors. For every £1 we have invested, investees have raised an additional £3.16 from their communities. This is predominantly 'retail investors', that is individuals in communities attracted by the social outcomes as well as the financial investment.

We have tested and learnt how to support more and more communities exploring community shares. We now have a complete pathway and many inspiring stories from incorporation to closing and managing a share raise.

We have used wholesale grant subsidy to us in three main ways:

- To provide small **early-stage development grants** to organisations preparing a share offer, these usually enable business planning, marketing, financial modelling, governance, share offer document preparation and community shares standard mark assessments

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<sup>3</sup> <https://www.uk.coop/blog/community-shares-investing-alongside-community-ownership-fund>

<sup>4</sup> <https://plunkett.co.uk/wp-content/uploads/Plunkett-Foundation-Better-Business-Report-2021-Community-Pubs.pdf>

<sup>5</sup> <https://www.crowdfunder.co.uk/p/savetheupp>

- To provide the **initial capital** pot for matched equity investments. Wholesale grant to Co-operatives UK has enabled us to invest this as returnable, but patient long term equity investments that in time will recycle back to the fund to be reinvested. That subsidy helps attract significant and usually very local retail investment.
- To cover the early-stage **overheads** of running a new fund, building a pipeline of deals and managing the investment process

This has built the UK's largest matched equity investment fund through community shares.

Raising finance through community shares is unique in the social investment landscape. It offers a genuine equity product, rather than complex 'equity-like' products. It provides more flexibility than loan finance which often prefers well capitalised and established businesses and has hurdles such as loan to value ratios. Community shares allow communities to pull together and take ownership of local assets or develop new projects or services for community benefit. The use of blended finance and subsidy makes this more equitable.

For social enterprises and community organisations, while debt options exist there is very little, if any, other institutional patient equity investment available. Traditional angel investment or venture capital funding that the private sector could access to scale an enterprise is not suitable or available. Sufficient capital grant funding can be hard to come by. Debt finance, if available, can carry high costs due to the perceived risk and the lack of track record or realisable assets available for security. Community shares often fills this gap but is then reliant on sufficient local investors. This is where institutional investment alongside individual community investors plays an important role. Our ability to meet this need is however restricted by our own access to wholesale capital.

We have to date tested and refined our investment model using grant foundation's wholesale money, in particular working closely with Power to Change Trust. We are now also working with Access, the Foundation for Social Investment through their Flexible Finance for Recovery Programme to continue to grow our offering. Our work with Access will provide us with some additional flexible capital to invest but it will not meet market demand over the longer term. To service the demand on our investment products we need a long-term wholesale investment partner. Dormant Assets backing social investment could enable this. It could also facilitate continued growth to disadvantaged communities.

### **Backing for social investment**

We strongly support the inclusion of social investment as a cause for the Dormant Assets scheme in England. Communities need access to a full range of financial products to fulfil their ambitions, and social investors need access to wholesale flexible capital to facilitate this.

We back calls from the social investment sector for a Community Enterprise Growth Plan<sup>6</sup>. We support building on the established infrastructure, partners and intelligence that exists in the marketplace to deliver the ambitions of Dormant Assets. Working together we can

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<sup>6</sup> <https://www.communityenterprise.uk/>

contribute towards sustainable and inclusive economic growth, the levelling up agenda and empowering communities.

When done well, social investment encourages the adoption of resilient trading business models that deliver multiple social impacts. Products like community shares often enable the investment in lasting physical community infrastructure assets and develops the skills of employees to manage profit-for-purpose driven business models, that do not solely rely on donations and grant funding.

Like banking and finance however, social investment often operates behind the scenes. It may not be well known to the public. However, it is an important piece of financial infrastructure which is of growing importance and is internationally recognised. Community shares are inherently more visible, indeed participatory, than other forms of social investment given they have public campaigns and unlock local investment.

While it may not be well understood by the public, the impact is tangible. It is a piece of infrastructure that enables the investment in new community facilities, saving community assets and providing vital working capital for charities and community enterprises. These investees often work with the least affluent and most vulnerable members of society. They provide invaluable services and often manage open access to physical community infrastructure; meeting places for people to make meaningful connections on a human level.

The end result of social investment is 'visible' in these sport and leisure services, community pubs and shops, health services, community centres, community owned affordable housing and energy.

Social investment has built a track record over the last decade, with the support of Dormant Assets investment. Big Society Capital estimates<sup>7</sup> the total market has grown tenfold in a decade to £7.9bn. They estimate the social non-bank lending figure stood at £162m in 2021 and at least 560 investments. The Community Share Unit's own market data shows annually around 60 community share offers raising on average £17m each year, so around 10% of the social non-bank lending figure.

Social investment can reach organisations working with the most vulnerable and communities identified as levelling up priorities. A deep-dive analysis by the Social Investment Forum finds that 43% of social investment deals have gone to Levelling Up Priority 1 Areas, totalling £520 million across nearly 2,000 deals. Our own data shows that 40% of our community shares equity investments have been made to the 30% least affluent communities.

Crucially, through social investment the money invested is repaid and recycled, enabling funds to be used again and again to grow future support.

Social investment products like community shares are inherently grass roots driven. It is not a top-down solution. Our matched equity investment supports the energy that already exists in communities. Where local people are backing projects themselves with their own money,

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<sup>7</sup> <https://bigsocietycapital.com/our-approach/market-data/>

community shares is in a unique position to evidence tangible grassroots support for a project and an investment.

### Future potential

Dormant Assets has to date helped grow the social investment landscape. It is right to pause and reflect on that success, and plan how to grow this in future. The Adebowale Commission report<sup>8</sup> *Reclaiming the Future, Reforming Social Investment for the Next Decade The final report of the Commission on Social Investment* provides useful insight on how this could be done to set a new vision for social investment, to increase the sources of capital, to grow the reach of social investment, and to continue to support the eco-system.

The Adebowale Commission identified the “frontier” end of the social investment market where there is the greatest need for risk-taking capital invested through a social investment wholesaler. The report placed community shares in the ‘frontier’ category as an area needing this ‘enterprise centric’ finance. Community shares provides the main genuine equity investment product in the social investment market, rather than more complex top-down ‘equity-like’ products. *“More patient and flexible, equity or quasi-equity enterprise-centric investment could be filling a significant gap in unmet demand” (page 43).* The report goes to say:

*“Finally, there are “frontier” investments in enterprise-centric finance for social enterprises. This is a broad space that includes equity, quasi-equity, community shares, place-led investments, outcomes contract financing to enable innovation in public service delivery. These are areas where the Commission believes that Big Society Capital needs to focus on the years ahead and where there is the greatest need for risk-taking capital invested through a social investment wholesaler.” (Page 94)*

We fully support expanding the reach of social investment through Dormant Assets and focusing on the frontier end of the market like community shares, with ‘enterprise centric’ approaches. Social investment will continue to need subsidy at structure and product level and use a range of products to help investment deals succeed. This subsidy into blended products should include support to the community shares market.

Impact Investing Institute and Big Society Capital’s *Bridging capital into communities: A practical guide for policy makers report*<sup>9</sup> from September 2022 noted the importance of ‘blended structures’ and ‘blended products’ in social investment and the ongoing need for wholesale investment:

*“Those interviewed reported that over time, loan and grant blends can reduce grant-dependency for social enterprises and charities. By taking on repayable finance that they would not otherwise, they are able to grow new sources of income such as through trading while reducing their reliance on other income streams such as charitable donations..*

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<sup>8</sup> <https://www.socialenterprise.org.uk/app/uploads/2022/07/Reclaiming-the-Future-Commission-on-Social-Investment-Report.pdf>

<sup>9</sup> <https://www.impactinvest.org.uk/wp-content/uploads/2022/09/Bridging-capital-into-communities-A-practical-guide-for-policy-makers.pdf>

*there are currently too few blended finance structures and products to fully realise the potential of the tool, with the level of blended finance flows heavily reliant and restricted by the limited availability of public or philanthropic grants.*

*Considering blended finance is overcoming persistent market failure, a significant and enabling opportunity for the social impact investment sector is a long-term, reliable source of grant to mount blended structures and products. This would support sustained market development and also help to attract other grant funders and investors” (page 11)*

As with preparing a share offer or Initial Public Offering in the traditional for-profit market, preparing a community share offer often requires expert input and development time to get right. This pre-revenue cost is often best covered through small grants, that represent only a small percentage of the overall sum raised. It is therefore a positive and significant return on investment and leverage. However, without this support, many community share offers will struggle to come to market or be of lower quality and hinder their chances of success. The Community Shares Unit has shown this blending of small grants, advice and equity investment can work.

The existence of expert advice and guidance above the market, such as the Community Shares Unit is also a vital piece of the market infrastructure that enables the community shares market to flourish and grow. We continue to support good standards in the community shares market by actively encouraging take up of the Community Shares Standard Mark, training and networking practitioners and maintaining guidance through our community shares handbook resources.

Department for Culture, Media and Sport commissioned, New Philanthropy to undertake a ‘*Review of grant subsidy for blended finance to support civil society*’. They looked at ‘blended finance’, the combination of grant, loan and subsidy to support investment into voluntary, community and social enterprises organisations. They recognised that traditional lenders usually consider these organisations too high risk to lend at affordable rates. Their report published earlier in 2022<sup>10</sup> said:

*“Without subsidy, blended finance for VCSEs would not happen. Blended finance supports VCSEs to grow and deliver a social impact that would not occur without this funding. The government is currently the only viable provider of subsidy for blended finance at the scale required to meet the needs of the sector. What’s more, blended finance is an effective mechanism for directing money towards ‘left-behind’ places. We think the government should continue to provide grant subsidy as a way of directing funding towards social needs as part of the ‘levelling up’ agenda.” (Page 75)*

They concluded there is a need for ongoing future public policy interventions by government to support the social investment market through the provision of grant subsidy into blended finance. They found that blended finance is an effective way of encouraging organisations to flourish in left-behind places *“It also helps social enterprises to thrive by increasing their*

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<sup>10</sup> <https://www.thinknpc.org/resource-hub/review-of-grant-subsidy-for-blended-finance-to-support-civil-society/>

*resilience and scaling their operations, and based on the beneficiary data reported by organisations, that this enables them to deliver more social impact in left-behind places". They recommended "re-endowing the current wholesaler of grant subsidy into the social investment market as a permanent actor in the market capitalising it as a wholesale provider of both grant subsidy and investment capital into blended finance for voluntary community and social enterprises (VCSEs), and giving it a mandate to build the social investment market and enable VCSEs to access suitable capital through the provision of tailored solutions to fill funding gaps".*

The NPC report identified the 'innovative model' of community shares (page 72), and our Booster Fund match equity investment product, as a design criterion for how to support the growth of this market through Dormant Assets.

Dormant Assets should therefore keep a broad and flexible approach to social investment to enable a range of products to be available to meet market demand. It should make sure there are not prohibitive constraints to social investors accessing wholesale capital at affordable rates, while continuing to support the existing infrastructure and knowledge in the marketplace.

We feel the suggested focus by the Adebowale Commission of 'enterprise centric finance' at the frontier end, patient concessionary capital and products that can be inclusive and reach the needs of different communities should be focus of Dormant Assets social investment.

## Examples

What sort of organisations and communities can social investment and community shares reach? Here are just four examples of investees using community shares who have also benefited from our social investment through matched equity investments by our Booster Fund. Further examples can be found on our website<sup>11</sup>.

- **Projekts MCR** is a community owned skate park in central Manchester. In 2020 they raised £130k through community shares which when matched with grant funding enabled them to invest in expanding the skate park. Co-operatives UK invested £67k as matched equity through our Booster Fund, which helped attract the rest of the equity from 70 local investors. The skate park now attracts over 6,000 people a year. It provides a welcoming space for a range of ages, opportunities for volunteers, and targeted outreach such as programmes and sessions for women and girls.
- In 2022 **East Marsh United** ran a share offer to raise money to buy and refurbish houses in their community in Grimsby. The East Marsh is one of the most deprived wards in England which was struggling with housing issues. The residents took it upon themselves to start solving these problems and raised £500k in community shares to renovate and let houses on affordable terms. Co-operatives UK invested £25k as matched equity through our Booster Fund.
- **Jubilee Pool** in Penzance is a celebrated art deco lido. It is also community owned, being a charitable community benefit society. In 2018, they raised £529k from 1,380 investors including £100k matched equity investment from the Booster Fund. This enabled them to secure significant grant funding. The money raised was invested in

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<sup>11</sup> [https://www.uk.coop/case-studies?f%5B0%5D=related\\_programme%3A1043](https://www.uk.coop/case-studies?f%5B0%5D=related_programme%3A1043)

geothermal heating to expand the season and increase their impact and trading income.

- The community around the **Lowther Arms** pub in Cumbria was faced with losing their only village pub when the owners sought planning permission to convert the pub into housing. In 2020 the Lowther Arms Community Project Ltd was established and it raised £276k from 320 shareholders including £100k matched equity from our Booster Fund. The community has since renovated and reopened the pub, bake cakes for sale in the pub, offer volunteering opportunities and they have reopened their small onsite camping facilities.

### **The Dormant Assets opportunity**

There is a fantastic opportunity now to support social investment through Dormant Assets. Indeed, there is a risk, that failing to seize this opportunity will severely hinder the market's ability to operate, grow and deliver the lasting impact that is possible.

There are many more inspiring stories of community impact like above waiting to be written, providing the right investment can be found and the right partners work together to achieve this.

There are the foundations of the social investment market in place. There is existing expertise and established routes to market. There are established products and emerging innovation such as community shares. There is also demand on the ground for a range of investment needs, that is not being fully met.

From the Community Shares Unit's perspective, we could grow the market for patient institutional matched equity investments with greater access to wholesale capital through Dormant Assets. Due to our limited capital, we have historically restricted our institutional investments to £100k per deal. On average requests for capital from us have averaged £65,467. As Co-operatives UK is itself a society, there is however no restriction on how much we can invest. To date we have only been able to service 15% of requests for investment. With better access to wholesale capital can grow the size and quantity of investments and communities supported.

Community shares have demonstrated they can raise money for a wide range of business models. This is significant private money being levered into the social investment market from individual retail investors. Over the last decade, this has been at least £200m. Community shares plays a crucial role for long term multi-generational patient investment in community backed organisations.

**A wholesale investment or endowment into the community shares market and the Booster Fund of £40m over the next decade would enable significant growth of the market.** Any wholesale investment into the Booster Fund would achieve significant leverage of private capital into the marketplace, on current performance this could double or triple the initial amount invested. The Community Share Unit is ready to work with government and sector partners on how to deliver a community enterprise growth plan to learn from past investments and build on the existing market expertise.