

raising the funds

to finance your
community enterprise



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introduction

So, you have the idea, you have the people and you're ready to set up your community enterprise. Now, all you need is the money!

If you have developed a firm idea of the enterprise, you will now be in the planning stage, even if it is just a back-of-an-envelope job. The importance of working up a business plan cannot be underestimated. It will need to be one of your first tasks, before you approach any number of organisations for support. Until your business plan is presentable, you cannot (a) issue a share offer, (b) apply for significant grants or (c) apply for commercial loans. For Plunkett advice on business plans, go to <http://www.communityshops.coop/node/2708> and under "Getting Started" you will find the advice sheet on Preparing a Business Plan, plus templates, further tools and examples.

At this stage you also need to be thinking about your legal structure; guidance on this can be found under "Getting Started" as above. Plunkett recommends the Industrial & Provident Society (IPS) for the Benefit of the Community and offers Model Rules for communities wishing to set up an enterprise with this legal structure. The majority of community-owned shops use this model. The section on Shares in this document relates only to this legal structure.



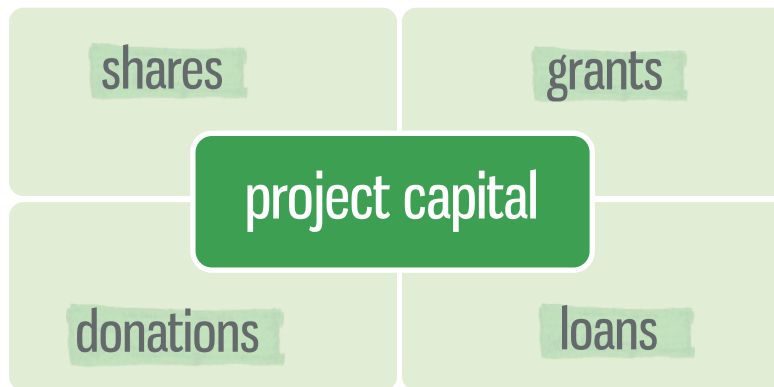
As soon as you start planning, you need to come up with a realistic assessment of the funding that your project is likely to require. This document is intended to help you create a funding plan, and to help you raise the funds to bring your project to fruition.



overview of different types of funding

There are four main ways of raising capital for a community enterprise:

- Donations
- Grants
- Shares
- Loans



These four types of funding can be interdependent (grants are likely to require match funding, for example, which can come from shares or donations; and share issues can also happen alongside a plea for donations).



donations

The first activity generally appears to be to seek donations (either by direct request or via traditional fundraising methods).

This is “free” money of course, and can often be raised successfully by creating a programme of events and ideas. It is worth bearing in mind, however, that it can require a disproportionate amount of effort and time to raise a relatively small amount of money. You also need to take into account how many fundraising activities are currently going on in your community, as there may be an element of donation fatigue.

Seeking donations through running village events or other types of community participation can bring much-needed support from the larger community. Individuals who might not wish to help with a share offer, or fill out grant applications, might be happy to organise village events such as discos, barbecues or a cake stall. Likewise, people in the community who may not wish to subscribe to shares, might be very happy to participate by making a donation or attending an event.



Fundraising programme

Woodgreen Community Shop, Hampshire

Woodgreen in Hampshire (pop. 540) raised £350k for their new-build community shop, PO and cafe - they applied for and received a large Lottery grant, along with other sources of funding (shares, other grants and a loan) but a massive **£120,000** was from donations and fund-raising events alone. It took three years and was a fantastic achievement, and the fundraising was much enjoyed by everyone, plus it enhanced the community spirit.

See www.woodgreencommunityshop.co.uk



Examples of some of their ideas

Open Gardens (in 2 villages)	£5,000
Open Village Day (gardens, studios, demonstrations, village history exhibitions, teas, ticketed BBQ)	£6,500
Raffle with cash prizes	£6,000+
3 Garden Parties	£6,000+
Village Variety Show (supper & entertainment)	£1,600
"Frolics in the Field" (live band and BBQ) x2	£4,000+
How to Wear Hats with supper (local hatmaker)	£1,000
Auction of Promises	£5,000+
Sale of roof tiles, commemorative plaques, & benches	over £1,000 each

Other events included: Xmas draw, race nights, bingo, a dog show, and a walking puzzle trail.



Informal fundraising events can start at the very earliest stages of a project and can be carried out while the business plan is being prepared. It can be a good way of raising seed-corn capital, as well as raising awareness.



advantages of donations

"Free" money

Inclusive - everyone can give a little something

Free from regulation and paperwork

Doesn't require business plan to be completed; can help in the very early stages

It **spreads the word** in the community and can be used to generate wider publicity

Gift Aid may be available through a community fund (see box on Gift Aid overleaf)

disadvantages of donations

Small amounts raised at a time

Donation fatigue can set in if the project relies on too many events

Great deal of **forward planning** required

Takes **time and energy** possibly better spent elsewhere

Unpredictable results and requires great imagination and enthusiasm

Setting up a community fund can be **time-consuming**



Can we offer Gift Aid to make the most of our donations?

The question of charitable status and Gift Aid comes up quite regularly. An IPS that is trading will not be eligible for Gift Aid; however, it is possible to set up a charitable “Community Fund” as a vehicle for donations and for grants (some grant-giving bodies prefer only to fund charities).



Every county has a Community Foundation (see the Community Foundations Network website on **www.communityfoundations.org.uk** to find your county foundation. These foundations act as umbrella organisations for a host of local charities, and generally aim to inspire local giving to meet local needs.

To take advantage of the potential giving that Gift Aid attracts, a community enterprise can set up its own community fund, and enter an agreement with its local community foundation that the foundation will receive donations, claim and credit Gift Aid to this fund. Donors need to tell the foundation at the time of their donation that they wish to support that specific community fund. The donations will be logged accordingly, and the community enterprise then needs to apply to the foundation for a grant from the accumulated donations.

Generally the community foundations will deduct a percentage to cover their administrative costs (usually 5-10% of each donation received including Gift Aid).

Not all community foundations will be happy to work in this way, but it can work very satisfactorily to encourage donations and enable some grants that might otherwise not have materialised.



grants

Spend some time establishing how much you might be able to achieve in grants. This depends on a lot of factors and it is best to make a conservative estimate, and to factor in a realistic time component. In some cases there will be an opportunity for applying for a very large grant - in which case a larger amount of concentration on this aspect of finance is worthwhile.

If possible one person needs to be allocated to this task, as it is good to have a cohesive approach to all grant applications. This person will need to be at the heart of the project as they will need to know every aspect of the potential enterprise. They will also need to be very thorough, be an excellent writer and have an eye for detail. Grant applications have to be impeccable to have a chance of succeeding in a very competitive environment.

advantages of grants

Very large grants are occasionally available

Even small grants are **worthwhile**

Achieving grants gives **confidence in the project**

Grants attract a great deal of **publicity and generate excitement**

disadvantages of grants

Time-consuming applications

Grant money is **rarely given up-front** and the project then has to be bank-rolled

Grant money is given usually with very **specific conditions**, with little flexibility

Quotes etc have to be gathered well in advance of the project going ahead; there can be a lot of **chicken-and-egg problems**, with planning, etc.





Don't just rely on filling out a grant application form: make sure you get to know the funder, create a dialogue, and really understand what they are looking for. Make face-to-face contact wherever possible.

Your grants "portfolio" will probably be wide and vary from the smallest grant of a few hundred pounds from a local trust or your parish council, to tens of thousands of pounds. The work will increase proportionately! Some grants will require a huge amount of work. It is worth persevering, especially if you have confirmation from the grant-funder that you are on the right track.

Applying for grants: where do we start?

- Start with your Parish Council - is it prepared or able to use its financial powers? (see box overleaf)
- Contact your District Council for local funding information
- Contact your county RCC (Rural Community Council) - they can be very helpful
- Look to see if your County Council has any grant streams that might be appropriate
- Check out the Big Lottery programmes
- Research online for grants in your geographical area and sphere of interest; there will be grants specific to your type of enterprise, and there may be local trusts that can help
- Check whether there is a LEADER programme in your county (LEADER is an acronym for the French title of a European Union initiative for rural development)



Financial powers of parish councils - giving grants

Funding via the Public Works Loan Board

One way in which a parish council can assist a community enterprise, is to apply to the Public Works Loan Board (PWLB) for a loan, at a very favourable interest rate and over a long term; repayments can be put on the parish precept.

Once acquired, the Public Works Loan (which comes from the National Loans Fund) can be given by the Parish Council to the community enterprise in the form of a grant, if the parish council is not directly participating in ownership. The parish council has to be eligible and qualified to borrow and spend, which means that it has to have the General Power of Competence, as outlined in the 2011 Localism Act. A PC wanting a loan should first contact their local body of NALC (National Association of Local Councils) who will look at the parish pro forma before applying for borrowing approval from DLG (Department of Communities and Local Government). Once borrowing approval has been agreed the PC can apply to the PWLB or any other lending institution, although most apply to the PWLB due to the low interest rates.

It is important to understand that this type of funding can be within the powers of a parish council to give as a grant and should be regarded as such in your funding plan.



Please note: If the Parish Council is not qualified or willing to borrow, it can still be of assistance to a new community enterprise within its parish. For example it could supply some funding in the form of a small grant as seed-corn capital. All new projects need some kind of fighting fund, for expenses such as setting up and registering a legal structure, printing literature, hiring venues for public meetings or for fund-raising events etc.

More information on Public Works Loans is available on request.



shares

Assuming you have the appropriate legal structure in place, a good proportion of your funding can come from a community share offer. This can be an extremely successful way of raising a large amount of capital relatively quickly (far more quickly than the grant process, or fundraising through village events, etc). Recently, enterprises such as community shops and cooperative pubs have been raising considerable sums via community share issues.

Community investment empowers communities by giving members - as part-owners - a direct say in the success of an enterprise, encouraging them to play an active part in its future. Your shareholders will become your customers, your volunteers, your staff, and your supporters.

One of the reasons that the Plunkett Foundation recommends the IPS and is one of only four organisations to develop model rules that allow for **community** ("withdrawable") **shares**, is that the IPS is the only legal structure that can offer this type of share. Community shares differ from the usual transferable shares (as offered by companies, including CICs). When a share is withdrawable as opposed to transferable, it can only be withdrawn from the organisation in which it is invested. Its value remains constant, unlike a transferable share in a normal company.

Minimum share investment in an IPS could be as little as £1 and the statutory maximum shareholding by one individual (or company) in an IPS is £20,000. You need to decide upon the face value of your shares, and it is possible to specify a minimum shareholding per individual - for example, a community shop might set the minimum shareholding at one share e.g. £10, while a community pub might choose to make it £250 or more.

The attractiveness of the IPS model is that each shareholder has one vote, irrespective of the number of shares they have purchased. This **"one-member-one-vote"** principle makes for a very democratic structure and allows the community share offer to be very inclusive.



advantages of shares

Speedy way of raising capital

Creates **community involvement**

Very useful as **match funding**

Creates **good publicity**

Democratic participation at the heart of the project

If tax relief is offered (see information on EIS overleaf) there is a **huge financial incentive** to invest

disadvantages of shares

Administration burden of keeping a share register

Project becomes **answerable to shareholders**

Paperwork has to be **watertight**

The future business will require some **liquidity** for potential share withdrawals

Some members of the community might be **uneasy about shares**, and would prefer to donate

EIS-triggered investment might be too much for **financial rather than social** return



How do we go about launching a community share offer?

- You will have set a target for share capital in your business plan. (It is vital to have written a full business plan before you launch your share issue as you should be able to offer copies to prospective shareholders.)
- To achieve that target, you need a good, concise and attractive prospectus - this does not need to be a huge document because you can always refer to the business plan. The Plunkett Foundation has many examples provided by communities who are prepared to share their documents.
- As you are reaching out to your community, the prospectus needs to be easily digestible - there will be people investing in community shares who will never dream of going near the stock market and you therefore need to overcome any fears that they may have.
- There will be individuals in your community who will only wish to invest the minimum amount, e.g. one share, but there will be others who will be prepared to make significant investment - hundreds or even thousands of pounds. It is important not to make assumptions about who will and who will not invest in this way. **There are often some very surprising investors!**
- In the community share prospectus, it is important to stress the social return of such investment. People are using their spare capital to preserve or create a local amenity - something for future generations to enjoy - and it is worth explaining what a very worthwhile way of using money this is.



How do we create a prospectus?

- The prospectus needs to cover: how much you wish to raise, why you need to raise it, and by when, and the terms and conditions of the shares. It must explain the face value of the shares and the statutory limit of £20,000 per shareholder.
- The IPS as a legal structure is fairly unregulated, and therefore self-regulation is imperative to protect the investor and the enterprise. Make sure that you prepare your share offer with the assistance of an experienced advisor (The Plunkett Foundation can assist with this).

case study



Slindon Forge Community Shop & Cafe Project, West Sussex

To create a much-needed shop and cafe in the village of Slindon, an action group came up with plans to renovate a derelict Tudor forge and purchase a 49-year lease from the owners, the National Trust, in the centre of the village. After community consultation showed widespread support, the action group registered the IPS under Plunkett model rules as the Slindon Forge Society Ltd and set about raising the £200,000 required.

In June 2011 a community share offer was launched, closing on 1 September 2011. The shares were set at a face value of £20 each, and were specified as having a tie-in period of five years. A total of £47,000 was raised from the community, with 150 shareholders.

Several grants and a loan of £20,000 made up the balance and the building work to renovate and extend the Forge started in earnest in Spring 2012. The action group also set up a community fund to benefit from Gift Aid (see box above, in section 1, Donations).

A breakdown of the funding is listed on the shop's website - www.slindonforge.co.uk - under The Project > Where Did The Money Come From?



What sort of financial incentive (in addition to the social return) can there be for buying community shares, if they cannot increase in face value?

- You can offer interest on these shares, if the business is likely to be able to support it - even an interest rate as low as 2.5% will attract investors, while bank rates remain so low. But it is wise to emphasise that this sort of payment will be at the discretion of the Management Committee and will be reviewed annually. Many community shops do not offer interest on shares, whereas cooperative pubs, for example, are in a stronger position to do so.
- A very attractive incentive to invest in community shares is the potential for tax relief for the investor (see box on EIS overleaf).

How do we protect ourselves from a large withdrawal of shares making the business vulnerable?

- There needs to be a tie-in period for share capital, to allow an enterprise to get off the ground. The Plunkett Foundation recommends a five-year tie-in, and if the society is intending to offer tax relief on shares then a three-year tie-in is mandatory.
- A good way of ensuring security for the business's finances and outlining the amount of liquidity that needs to be retained year on year, is to specify that only a certain percentage of share capital is withdrawable in any one year (Plunkett recommends that a figure of only 10% is repayable per year).
- Another protection which is written into the Plunkett rules is that all share withdrawals are entirely at the discretion of the Management Committee.
- These measures ensure the business has a chance of establishing itself; and at the end of the tie-in period, new shareholders can be sought to allow the earlier shareholders to withdraw their shares if necessary.



Tax relief on shares - EIS

The Enterprise Investment Scheme (EIS) is a government scheme designed to encourage investment in new enterprises. This can apply to societies as well as companies. A useful description of benefits can be found on <http://www.eisa.org.uk/information> and the official HMRC website is <http://www.hmrc.gov.uk/eis/>

If a society applies to HMRC successfully for Advance Assurance that it is an eligible business, this would mean that any purchases of shares (up to the statutory maximum of £20,000 per individual or company for an IPS) would qualify for income tax relief equal to 30% of the amount invested.

In April 2012, an even more attractive incentive came into force: the Seed EIS (SEIS), designed to encourage investment in the smallest companies/enterprises. If your gross assets are not to exceed £200,000, and you are going to employ less than 25 people, then you can apply for SEIS assurance, which will allow investors to claim 50% tax relief on their shares.

The application process is relatively straightforward. First you need to apply to HMRC's Small Company Enterprise Centre (SCEC) using the Advance Assurance form, and enclosing a copy of your Rules and a draft of your prospectus - see <http://www.hmrc.gov.uk/forms/eis-aa-bw.pdf> - this process should take no more than 28 days. After trading for four months, a formal application needs to be submitted using the EIS1 form (EIS Compliance Statement). The business can then issue EIS3 forms to its investors. At this point the tax relief is available to the investor, who will need to fill out a self-assessment form for that tax year to benefit.



Note: It is wise to put a disclaimer in your share prospectus that the society is not able to advise members on tax issues and that it will be each investor's responsibility to make their own enquiries and to satisfy themselves as to their own eligibility to claim such tax relief.



loans

If it is not possible to fund the enterprise entirely by the methods above, then loans need to be considered. Commercial loans will need a cast-iron business plan, and private loans (hopefully interest-free!) or bonds from local community members will need appropriate terms and conditions, and some legal protection.

There are a growing number of approved loan providers who lend exclusively to community-owned enterprises and social enterprises. These specialist organisations have specific experience and understanding of this type of business, and are able to offer them additional support and advice including financial planning.

In comparison to high street banks, CDFIs (community development finance institutions) are more likely to look favourably upon a loan application from an appropriately incorporated community-owned business as they consider it to be a reliable business model. For more information on CDFIs generally, see www.cdfa.org.uk. The Plunkett Foundation works with CDFIs and can also assist with recommendations.

It may also be worth considering whether in a village context it would be preferable for freehold or lease ownership to be delegated to the Parish Council, with their greater powers to borrow (see box on Financial Powers of Parish Councils, in the section on Grants, above).



advantages of loans

Creates **clearly defined debt** with a repayment plan, unlike shares

Business plan will have had a thorough vetting if a commercial loan is sought, which will provide a **sound basis for the business**

Demonstrates that the **enterprise is creditworthy**

disadvantages of loans

Commercial loans are likely to be **inflexible**

Large private loans or bonds from individuals in the community can give their opinions more 'sway', resulting in a **less democratic set-up**

Having loan debt rather than share capital will mean **emergency loans are less likely to be agreed**



about the plunkett foundation

Founded in 1919, the Plunkett Foundation helps rural communities through community-ownership to take control of the issues affecting them.

Today, Plunkett is the only national organisation supporting the development of community-owned shops in the UK and has been instrumental in the establishment of, and ongoing support to over 270 community shops. We provide a range of business and retail support via a network of Community Advisers, Mentors and Specialist Consultants, together with a telephone, email and online helpline co-ordinated by a team of staff at the Plunkett Foundation.

This guide was produced as part of **Making Local Food Work**, a five year, £10 million project funded by the Big Lottery Fund's Changing Spaces programme. It works to reconnect people with where their food comes from by supporting community food enterprises across England.

for more information

Take a look at our websites

www.makinglocalfoodwork.co.uk

www.plunkett.co.uk and **www.communityshops.coop**

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