clubdevelopment

Community Shares

A better way for Sports Clubs to raise money


Club Shop

Introduction

A Club can command a place in the community connecting people like few other things in modern day society, whether that's through watching, volunteering, participating or just providing a sense of identity.

Community Shares offer an opportunity to further that connection, between individual and club, by enabling individuals to invest in it in a meaningful way.

What's more there is the possibility of huge benefits to your Club by raising money that can change the Club forever, such as improving or building facilities, or enabling the community to collectively buy the Club.

This guidance will introduce a relatively new approach for Clubs to raise money, explaining why we believe it is the perfect match and how Community Shares fit with the traditional methods of raising money that Clubs are more familiar with.

Some Clubs are already seeing the benefits and we'll share their stories as well as some of the secrets that have made their schemes a success.

Is it time that your Club considered how it will fund its aspirations?

Contents

What are community shares?

Community Shares are a means to raise finance by offering shares in a co-operative legal form, most commonly a form known as a Community Benefit Society (CBS). Shares in a CBS are different to 'normal' shares in companies. CBS shares don't go up in value and are unlikely to go down, and don't give extra voting rights to bigger investors. Community shares can, under certain circumstances be withdrawn, with the CBS buying back the shares for the original price that they were bought for, thereby offering the individual investor an exit route. For these reasons, the shares are usually called "withdrawable shares" to distinguish them from ordinary shares in a company.

A CBS can pay a small amount of interest to shareholders, but it is up to the Board to decide whether the Club can afford to pay interest, based on its business performance. There is a limit to the number of community shares an individual can hold in any one CBS, currently set at £20,000 . Organisations and enterprises can also invest and buy shares but they too only get one vote, regardless of how much they invest.

As the name suggests a CBS exists for the broader benefit of the community, in this case a sports club, so it is possible to offer community shares without the regulatory burden and cost that a similar offer would involve if your Club were a Limited Company.

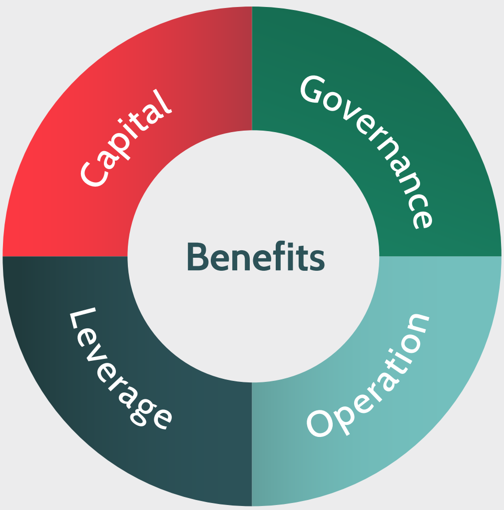
A CBS is a type of Co-operative which is registered with the Financial Conduct Authority. People are invited to join as members paying an annual membership fee, and each person receives the same vote. The membership decides who they want to represent them on the Board, with the Board reporting back on their progress. The assets are held collectively by the members of the CBS, and by incorporating to become a legal entity any liability to individuals is fixed to £1 for each member or the value of their investment if they have bought community shares. If a Club isn't incorporated these liabilities will rest with individuals.

Any profit a CBS makes must be reinvested, and there are protections written into the rules to stop the wealth of the CBS being distributed to individuals. Due to the nature of CBS' existing to benefit a community of people rather than an individual, a CBS enjoys exemptions in regulation that may affect Companies, for example it is much easier and more cost effective to offer shares to the public in a CBS to raise money.

If your Club is already set up as a company, it can either convert to a CBS, or you can retain the existing company and set up a CBS above the Club, with the Company becoming a wholly-owned subsidiary.

What are community shares?

- Unique to co-operative and community benefit societies.
- One member, one vote.
- Interest payment only sufficient to attract investment.
- Non-transferable, nominal.
- Exempt from regulation under the FSMA 2000.



- Community Shares offers can provide long-term risk capital and its repayment linked to the performance of society.
- Community Shares can give members meaningful involvement in the running of society.
- Community Share offers can 'bake in' the customer base and promote member involvement in the operation of the enterprise.
- Community Share offers can lever further funding based on the 'first move' of the community.

Traditional Ways Clubs Raise Money

Clubs have a long tradition of success in raising money through subscriptions, match tickets or sponsorship, but when it comes to raising capital the results and methods are much more varied from club to club. By capital we mean money that sits outside of the day to day operations and is set aside to help the Club grow – for example money to invest in facilities. The most common methods of capital finance are summarised below:

Fundraising and donations

Money is gifted to a cause, normally from an individual with no right or expectation of ever receiving that money back. An extremely important source of money for Clubs but there is a limit to how much people will just give away, and the connection between individual and club may be limited to a one off interaction.

Grants

Money is awarded to a Club from a grant funder with certain conditions attached as to what the money is for. It could be a capital grant (e.g building a sports facility) or a revenue grant (e.g paying for coaches to deliver training to kids). If the money is misspent or the aims not delivered a Club could be at risk of having the money reclaimed.

Debt Finance

This could be a commercial loan from a bank, or a loan agreement with individuals. A bank will lend money to a Club with money being paid off over a period of time at an agreed rate of interest in addition to the amount loaned. Often this will be secured against an asset of the Club, such as a piece of land.

More common is a Club turning to an individual to borrow money. It may be the easiest option, but it can put the Club at risk if it can't meet repayments. It can change the dynamic, with the influence a loan holder can have over a Club.

Bonds are normally offered as an unsecured form of debt for a fixed period of time, with a fixed rate of interest. There is the pressure to repay the bond holders at the end of the fixed time period.

Selling shares in a Company

Many Clubs that are incorporated as Companies have sold shares to raise capital. However, by law, a private limited company cannot make a public offer, so the shares are usually bought by a handful of wealthier supporters, who end up owning and controlling the majority of the shares. Some clubs have also sold lots of small shareholdings to members or supporters, but it is usually very difficult to resell these small shareholdings, making them more like a donation than an investment.


mac
energy

Where do community shares fit?

We think Community Shares are a perfect match for sport clubs large or small, and a welcome addition to the traditional methods of raising capital finance. This is why:

It allows you to raise money without losing control of the Club

The voting structure of the Club will be one member one vote despite the level of investment, therefore retaining that feeling of being a club owned and loved by many

It can help attract other money

Raising some of the capital you need through community shares will usually make it easier to attract money from other sources, such as commercial loans or grant funding, because you have spread the risk and shown that you have the support of your members and community.

It is a less risky and more flexible way for a club to raise finance

Compared with loans that have fixed repayment terms and fixed interest rates, community shares are far more flexible and patient form of equity. The Club has the power to decide when it can afford to pay in interest on community shares and when it can allow members to withdraw some or all of their share capital. Loans are debt, shares are equity.

It is a cost effective method to raise money

Selling investment opportunities to the public is a heavily regulated activity, but because community shares are about community benefit rather than private financial gain, they are exempt from these regulations, making community shares a much cheaper and more cost effective way of raising money.

It is a growing trend

Community shares have been used by lots of community groups to finance businesses and services that are important to communities, such as pubs, shops and renewable energy. The government has recognised this trend in 2012 by funding a Community Shares Unit, to help more communities raise finance this way.

Read more at : www.communityshares.org.uk

It can help you become a better run Club

Community shares work to the principle of one-member-one-vote, which means the Club will be equally accountable to all members, who will have a say in choosing the board of directors and approving any major decisions about the future. A CBS structure has the same limited liability status as a company, and protects the assets for community benefit. It is a model of ownership that will appeal more to public funding bodies.

Community shares helping people to buy their local pub

It's a fairer way to raise money for the Club and your supporters

By offering shares it gives individuals the chance to share in the success of the Club, but also a realistic exit route for shareholders should they wish to leave the scheme.

In addition a share offer may qualify for the Enterprise Investment Scheme, which is set up by HMRC to encourage investment in small and medium enterprises such as sports clubs.

If a scheme qualifies it may be able to save individual investors up to 30% off their investment against an individual's income tax.

It can help stimulate an active membership willing to volunteer and promote the Club

By giving your community the chance to invest in the Club, you are increasing the attachment they have with it

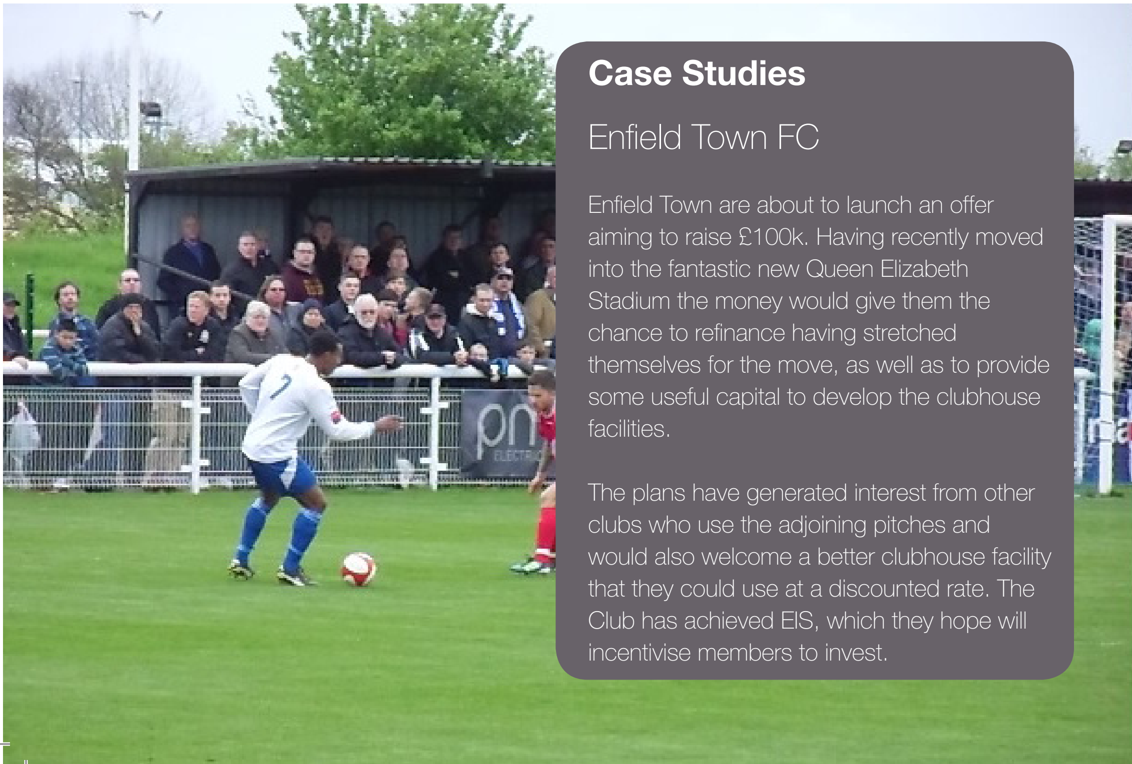
Making a difference with community shares

Every Club is different and whatever the size and sport, possibilities exist for building a winning club with the help of community shares. The case studies below show how;

Grow A Club

Clubs that are familiar with a memberowned structure and are considering incorporation or Clubs that are willing to convert to a community ownership structure can look to community shares as a means to raise capital to build and grow.

It is important to allocate money raised from a share issue for projects and activities that have a clear business case, so that money can be spent and then recouped over time from the additional income the spend generates. There are a whole host of opportunities a Club might encounter such as investing in solar panels to reduce energy costs, or improving onsite facilities to hire out to local businesses for meetings and events.

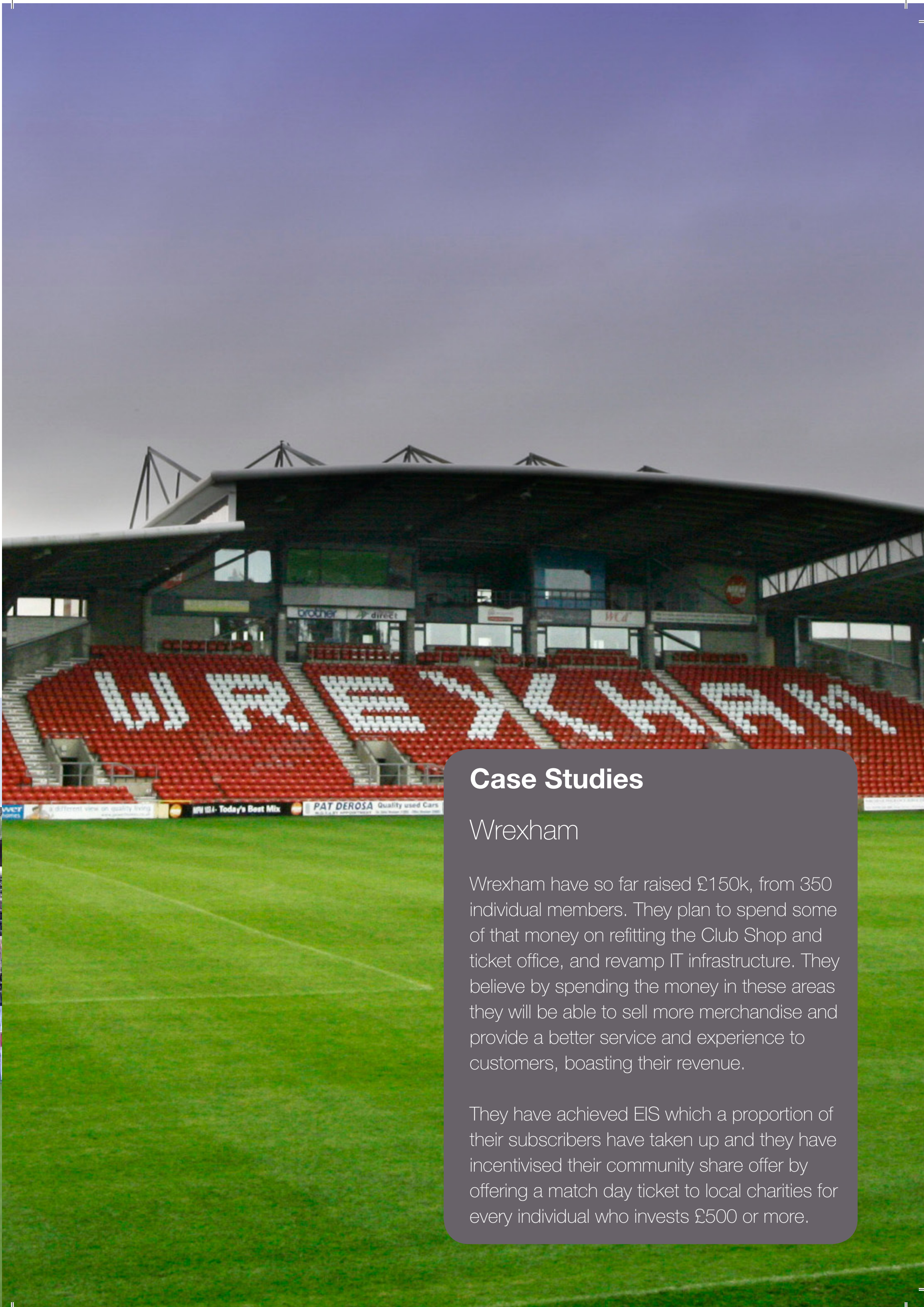


Case Studies

Enfield Town FC

Enfield Town are about to launch an offer aiming to raise £100k. Having recently moved into the fantastic new Queen Elizabeth Stadium the money would give them the chance to refinance having stretched themselves for the move, as well as to provide some useful capital to develop the clubhouse facilities.

The plans have generated interest from other clubs who use the adjoining pitches and would also welcome a better clubhouse facility that they could use at a discounted rate. The Club has achieved EIS, which they hope will incentivise members to invest.



Case Studies

Wrexham

Wrexham have so far raised £150k, from 350 individual members. They plan to spend some of that money on refitting the Club Shop and ticket office, and revamp IT infrastructure. They believe by spending the money in these areas they will be able to sell more merchandise and provide a better service and experience to customers, boasting their revenue.

They have achieved EIS which a proportion of their subscribers have taken up and they have incentivised their community share offer by offering a match day ticket to local charities for every individual who invests £500 or more.

Build a Facility

A new or improved facility will be an obvious desire of many Clubs and a well thought through community share scheme can provide significant finance to help make that happen. By raising a proportion of the overall target through Community shares, Clubs can look to other grant funding schemes and traditional fundraising to make up the rest to reach a target figure.

Case Studies

FC United of Manchester

FCUM have raised a staggering £1.85 million from a community share offer, alongside a development fund of a further £0.5 million. The development fund has proved vital in paying for development costs, such as professional fees for planning and architects to turn their dream home into a reality. Critically by raising so much they have been able to leverage other money including large grants from The Football Foundation, Sport England and Manchester City Council for a project with an overall cost of more than £6 million. The scheme has been successful in securing EIS, with approximately 10% of the investors taking up the opportunity to claim money back from their tax liability.

As well as the financial rewards, the Club have seen their membership almost double to more than 3,000 during the course of the offer. A larger more engaged membership gives FCUM a chance to draw on even greater resources and build on the healthy number of volunteers that already turn out for the Club's benefit.

The first spade is due to hit the ground in Novemeber 2013, and the Club aspires to repay up to 10% of the original investors in year 3 when the benefits of the new ground begin to take effect.

Buy A Club

Using Community Shares is a great way for a community to purchase a Club, be that by providing a planned exit route for an existing owner or to take over a club in crisis. With the complexities and risks of a takeover, the offer is likely to be different with a number of stages.

Case Study

Portsmouth FC

Portsmouth Football Club is now majority owned by the community with Community Shares being utilised to raise more than £2 million to purchase shares in the Private Company Portsmouth Community Football Club Limited, which are held collectively by Pompey Supporters Trust (PST).

PST surveyed 6,000+ supporters establishing that Pompey supporters wanted to be formally involved in any new ownership structure, and were willing to invest money in a credible and financially sustainable community buy out of the club. They followed the survey with a pre-share offer asking for deposits of £100 to test the appetite of the community, which paved the way for a full community share offer.

More than 2,000 individuals have now invested the minimum £1,000 or more in the scheme, a figure which was set at an unusually high level because of the need to raise a large amount of money quickly. To help with the speed of the deal they partnered with a local credit union who were able to offer individuals the chance to borrow money to join the scheme. This show of support helped attract other finance – approximately £1.5 million from individuals willing to part with £50k or more known as the Presidents who hold a minority shareholding, a short term loan from Portsmouth City Council of £1.5 million and a loan of £2.75 million put together by PST from a local property developer, secured against the future ownership of the stadium.

Buy A Club

A typical approach is detailed below;

1: Understand the appetite

Consult with core supporters seeking support for community ownership

Method – Survey Supporters, Open Meetings

Note: don't get obsessed with the figure pledged, it's the 'appetite that is important' – pledges are just that, others will back the scheme; some will be waiting for more detail

2: Pre share offer

Get money in the bank to show firmer commitment for community ownership

Method – Pre share offer document

Unless negotiations are at a developed stage and a price has been agreed to buy the Club then a pre share offer document should be circulated asking for money to be paid into a secure holding account.

This could be the full amount or a deposit to show commitment beyond a pledge.

Note: this is about showing you are serious to other potential backers/the administrator, but money should remain in the holding account until you are ready to provide a detailed share offer document.

3: Full offer document

Time to lay everything out to investors including terms of their investment

Method – Offer document

If;

- a price has been agreed
- due diligence completed
- you know the target figure you need to raise to purchase the Club
- you have a figure to provide enough working capital to fit with the budget

You can release a full offer document including financial projections for how the Club will operate. If it's not 100% control, heads of terms/shareholders agreement should be in place to protect the position of community ownership and your investment.

You need to seek permission of those who already hold money in the holding account and invite others to deposit money to meet the target.

Note: this money will remain as a deposit and will only convert into shares in the CBS once the minimum target has been reached, and an agreement is made to purchase the Club. If it isn't, money should be returned or individuals could be written to seeking permission to put money into a different scheme.

4: Buy the club

Do the deal which will give the CBS at least a majority shareholding if not full ownership

Method - Convert the deposited money into Community Shares in the CBS.

Use the money to purchase the Club and provide sufficient working capital.

Time to send out share certificates to investors and make them aware of any other benefits they are entitled to.

Engaging with your community

Ultimately Community Shares are about going out to your community and asking them to invest in your Club. You may have a band of loyal and committed supporters but to continually ask them to fund the Club is going to have limited results, it's the ability to come up with a scheme that widens the appeal to a broader section of the community that will really bear fruit. Different things will appeal to different people; some may get excited by the community ownership aspect, others by the tangible benefits a better facility or club under community ownership will bring.

Whatever it is that interests them individually you need to consult with your community and involve them the whole way through to get the best results.

Here are 5 steps to make community shares a success at your Club

1. Define the Purpose

A proposition needs to be well thought through or people won't part with their money. Consider the following;

- Is there a clear business case showing how much money is needed and how it will make a difference to he Club?
- Have other sources of finance been considered that could add to the funding mix?

2. Get set-up to succeed

Before embarking on the offer you need to get the basics in place and to be prepared for how this will change the Club. As well as helping you deliver the aim of the offer, it will also breed confidence and more money from investors if your approach has been professional and well planned. Consider the following;

- Do you have the appropriate CBS legal structure to give you the power to offer community shares?
- Do you have a development fund in place to pay for development costs and move the share offer along? The size of the development fund depends on the type of project you are planning but typically will be 5-10% of the total cost of the project
- Have you consulted with the community about the scheme? It is important to give time for people to understand the proposals and have an opportunity to shape them. That will increase the buy-in and should increase investment.

- Is the group ready to take on this extra responsibility and do they have the right mix of skills to make it work? Can others be brought in, either paid or voluntary, for the experience they can bring?

3. Get the offer right

Whilst a community share offer is exempt from regulation, it still needs to contain information that fairly reflects the position of the Club, the aspirations of the offer, and explain any risks attached to the investment. A good offer document will be informative and clear, but also have a bit of sparkle to sell the proposition and the benefits to the Club and community. Consider the following;

- Is the offer best suited to be time bound or an ongoing open offer?

- Do you have adequate financial information to support the offer? For example information to explain the current position of the Club, some financial projections to summarise how the Club would grow, and how individual investors might be able to withdraw their money in the future. Links to annual accounts and a business plan are recommended

- What about individual benefits? The overall benefit to the Club and community might be enough in itself, but individual benefits to incentivise investment should be considered. These can range from member discounts to EIS tax relief, which could save your investors up to 30% of their investment.

- When is the best time to go out with an offer? The timing of the offer is crucial and consideration needs to be given to other fundraising schemes or financial demands the Club may be making such as season tickets

- How will the offer be promoted to get beyond the core supporters? A well thought out investment proposal that provides clear community benefits will broaden its appeal to a much larger pool of investors.

4. Manage the scheme well

It is important to run the scheme professionally and give a range of options for people to get involved. This will breed confidence and goodwill and should lead to further investment. Consider the following;

- Have you have made joining the scheme and buying shares easy. Are there a range of payment options and methods to sign up? Have you considered online payments using a tool such as Microgenuis?

- Will you administer the scheme in-house or will you pay for professional assistance.

- If you have been successful in applying for EIS do you fully understand the terms and conditions of the scheme? For example when should you issue shares and to be careful not to fundamentally change what you gained permission for.

- Are you ready to answer questions about the scheme, and how can individuals find out more?

5. Realise the other benefits of Community Shares

Community Shares have the potential to do so much more for your Club than just raise money in a one off fashion. Consider the following;

- With investment should come a stronger connection to the Club, so are you giving opportunities for your members to volunteer?

- Are you keeping the Club and the community up to date with the progress of an offer?

- Is everyone clear how community shares sits with other activities at the Club? You don't want to be competing for the same money. Also you don't want the funds to be misused.

- Are you remembering to communicate with your shareholders and keep them interested in the progress of the Club?

About us

Supporters Direct is the leading organisation promoting and developing community owned sports clubs.

We are the only organisation to have CBS model rules for all sports clubs to undertake a community share issue, and we can provide advice and support right from developing the idea, drafting the offer document to launching the offer. We have already been directly involved in a range of share offers that have collectively raised over £2.5 million in share capital, from thousands of individual investors.

Thanks to assistance from our partners and supporters, we may be able to offer our expertise at a subsidised rate, or in some instances a more flexible package where our fees are linked to the outcomes we achieve for your Club.

To find out more about how we can help Clubs like yours please go to : www.clubdevelopment.coop

This paper was written by James Mathie from SD Club Development with the support of Jim Brown & Ged Devlin from the Community Shares Unit

Contact

James Mathie

SD Club Development

t: (0) 20 7273 1532

m: (0) 79 3204 0186

e: james@clubdevelopment.coop

w: www.clubdevelopment.coop

club development

clubdevelopment

www.clubdevelopment.coop