

Scottish Parliament, Cross Party Group on Co-operatives

Tuesday 1 April 2014, Committee Room 4, 6pm.

Minutes of CPG Meeting on Community Shares

1. Attendance

James Kelly MSP, Claudia Beamish MSP, James Proctor (Secretary)

Speakers: Ged Devlin (Community Shares Unit) and Paul Phare (Co-operative Consultant)

Attendance: Emma Beeby & Neil Cuthbert (Public Affairs Co-op), Ian Cooke (Development Trust Association Scotland), Tracey Cunningham (Glasgow City Council), Sarah Deas (Co-operative Development Scotland), Hugh Donnelly (Co-operative Education Trust Scotland), Lucy Eskell & Mike Shaw (Students for Co-operation), Deborah Hay (Big Lottery Fund Scotland), James Graham (SAOS), Andrew Jenkin & Michael Wood (Supporters Direct), Joanne Letam (Baxendale), Richard McCready (Co-operative Party), Frank McKillop (ABCUL), Martin Meteyard (Enterprise Hub), Lynn Mollison & Martin Petty (Harlaw Hydro), Douglas Prentice (GeoCapita), Euan Renton (Edinburgh City Council), Louise Scott (Media Co-op), Charles Sim (Scot West Credit Union), Robin Stewart (Co-operative Group) and Juliette Summers (University of Stirling)

Apologies

MSP: Jim Hume, Willie Coffey, John Scott and Jackie Baillie

Non-MSP: Karen Birch (3rd Magazine) Andrew Lindsay (Big Lottery Fund Scotland), Iain Macdonald (International Co-operative Consultant), Jim Metcalfe (Carnegie UK), Ian Millar (Scotmid), Stephen Pennington (Highland Home Carers) and Andrew Prendergast (Plunkett Scotland).

2. News and Updates from Co-operative Sector

- The meeting started with sad news of the passing of Scotmid's President, Hollis Smallman, and John Smith from the Fenwick Weavers' Society. Both had been committed co-operators and had done much to further co-operative values. Note was made of the obituaries to them in the recent edition of the Co-op News.
- Robin Stewart (Co-operative Group) gave the meeting an update on the well-publicised issues affecting the Group. The Myners report on governance was to be considered by the Group Board and the Kelly Review of the problems at the Co-operative Bank would be published around the end of April. The Group will invest in their retail stores with new stores and acquisitions.
- A group of people are looking into the potential of buying the Co-operative Farm in Blairgowrie and a community meeting was to be held soon to discuss this.
- It was expected that the Co-operative and Community Benefit Societies Act will commence on 1st August. This will consolidate existing legislation, increase the amount of capital one single investor can put into a co-operative and make other changes to the naming of co-operative types. More details on the implications of the Act can be found on the Co-operatives UK website: <http://www.uk.coop/documents/practical-implications-changes-industrial-and-provident-society-legislation-2014>
- Co-operatives Fortnight will run between 21 June and 6 July this year. All co-operatives are urged to get involved in this yearly awareness raising campaign. Congress is in Birmingham on 27 and 28 June and will be less costly to attend and more collaborative than in previous years.
- Students for Co-operation have had 180 applications for the 106 places available in the new Edinburgh Student Housing Co-operative.

3. Presentations –Community Shares

Ged Devlin, Community Shares Unit (CSU) & Co-operatives UK

- Ged explained that Community Shares are unique to Co-operative Community Benefit Societies and although individuals can invest up to £20,000 (soon to be £100,000) the one-person, one-vote ethos was retained – therefore a greater investment doesn't buy greater influence.
- The minimum that the CSU considered made the issue of shares a Community Shares issue was at least £10,000 from at least 20 members.
- Community Shares issues are exempt from the Financial Services and Markets Act (FSMA) requirement to have the share issue regulated and this lowered the cost, making smaller share issues for community business projects viable.
- There have been more Community Share offers in the past five years than floatations on the London Stock Exchange – albeit the value of Community Share offers are considerably lower. However this demonstrates the amount of interest in financing these types of local projects.
- Since 2009, £35million has been raised from 35,000 members. The average Community Shares issue is £175,000 and the average investment is £1,000.
- Prior to the CSU project there were only a handful of Community Shares issues. Since 2009, when the project started, there has been huge growth in interest with around 160 share issues in 2013 (up from less than 20 in 2008).
- The initial 10 pilot projects were in a diverse range of sectors and this helped raise the profile and provide a breadth and depth of learning that wouldn't have been achieved otherwise. It has demonstrated that there is a need to stimulate interest in the option and to provide the right environment of support.
- The financial leverage that a Community Share issue provides is also important. With increased equity finance, alongside proof there is significant interest in the proposal, it is easier to secure debt finance. Community investment has therefore often been an important first step.
- The support project in England and Wales has allowed communities to unlock local investment in community co-operatives. A similar project in Scotland would help build on the existing knowledge and increase the volume and size of the Community Shares market.

Paul Phare, Co-operative Consultant

- Paul started by explaining that he wore four hats in terms of energy co-operatives and Community Shares. He does work for Energy4All as well as his own energy consultancy, Real Alternatives. In addition he is a director of both Spirit of Lanarkshire Wind Energy Co-op and Drumlin Wind Energy Co-op in Northern Ireland.
- A comparison of traditional public funding for community projects and the Community Shares route demonstrated that they were probably suitable to different types of project. Traditionally funded projects were based on making grant applications to funding bodies and matching the projects objectives to those of the funder.
- A Community Shares funded project however needed to convince the community to invest in the project and therefore had to communicate directly with the community. This meant these projects had a very different focus to publicly or grant funded projects.
- Paul used the Drumlin Wind Energy project to give practical information on how the Community Shares scheme had worked.
- The project in Northern Ireland brought together a diverse group of people to develop wind turbines in local communities. They wanted to raise finance and Community Shares stood out as the best way to do this. As the amount of investment required was substantial they chose to issue shares through a regulated offer using Energy4All as a partner as they had the expert knowledge required. The regulated offer provided more security for investors and ensured directors considered the implications. This was important given the amount of finance required and the responsibilities that directors were taking on.

- In wind energy terms the project was small scale and affordable for local communities. Two turbines would require £1.5 million of funding and this would create a viable co-operative but the group were aiming to fund 5 turbines.
- The share issue opened in July 2012 and funding was secured for two turbines by September 2012. The issue was finally closed in April 2013 with £2.9 million raised which allowed the development of four turbines across Northern Ireland. There is now a second share issue open which aims to raise £1.2 million for two more turbines.
- During all these share issues priority was put on investment from people in Northern Ireland.
- Paul then described the importance of the share offer document and explained that the public were unsure about investing in general. A regulated share offer was essential when the sums required are big. This helped to attract ethical investors and gave confidence.
- In all energy projects it was important to prioritise investment from the local community to ensure that it was they who would derive the financial benefit from the project.
- In the current financial climate the returns could be attractive especially when Government tax relief is taken into account. One project used as an example projected an average of 8.6% return over 20 years. In community projects the local community would also benefit by around £2,000 per turbine per year which is higher than in other schemes.
- The Spirit of Lanarkshire Wind Energy Project had recently raised £2.7 million to fund wind turbines in two wind farms in South Lanarkshire. The developer, Falck Renewables, were unique in offering the local community a share in their developments.
- As with the Drumlin project local investment was prioritised with South Lanarkshire residents first to be accepted followed by those from bordering local authorities then others decided by the size of their investment from smallest to largest. This ensured the maximum number of local investors.
- It was agreed that the use of the community funds gained from the development would be decided by the members at each AGM.
- The final project Paul outlined was the Edinburgh Community Solar Co-operative which is ongoing. This project aims to put solar panels on 25 City of Edinburgh buildings and is looking to raise a minimum of £1.2 million. The returns are limited to 5%+RPI and all profits will be for community benefit.
- In summary Paul stated that in Community Shares funded energy project members who invested were engaged members for a number of reasons. They were interested in the environmental benefits and the potential for a social return as well as a financial one.

Ian Cooke, Development Trust Association Scotland (DTAS)

- Ian took the opportunity to announce that DTAS in partnership with Plunkett Scotland, Co-operatives UK and Rocket Science had secured three year funding from Big Lottery Fund Scotland and Carnegie UK to support and develop the Scottish Community Shares market.
- The project would help to raise awareness and build capacity through training and development as well as help up to 20 share issues with support and information.
- The service would start at the end of May and run for three years.

Discussion

- Questions were asked about whether local people were prioritised in the Spirit of Lanarkshire Co-op and about how low the rate of return could be for Community Share issues. It was confirmed that local areas were prioritised as the share offer was oversubscribed and that no one was able to invest more than £5,000. In regard to rates of return some share issues had no rate of return on the investment but many offered around 2% to 3%. Energy projects often offered higher rates of return.

- There was a discussion over the seemingly high rate of return for wind energy projects. The response was that there were currently higher rates of return available for non-community renewable energy projects therefore investors were bearing the risk while achieving below-market rates of return and without any capital growth in their investment. This meant the investment was still largely about the community gaining from the scheme.
- There were questions about the future renewables projects and it was stated that finding opportunities was proving difficult. It may be that there is a need for greater partnerships with commercial companies along the lines of the Falck Renewables model (part community investment in a larger commercial development).
- The recent share issue for the Harlaw Hydro project was discussed.
- The Community Share scheme had raised the full £313,000 required to fund the project. Initial thoughts were that a mix of shares and traditional bank debt would be required so fully funding the share issue was beyond the expectations of the project team and significantly lowered the financial risks. 213 shareholders, mostly from Balerno and the surrounding area, reached the target in only three months.
- People had needed convincing that the share issue and the project were worth it but now they are looking at what the next project should be. There will be a significant financial return to the local community through this project and this is important in getting the community to invest.

The Convener rounded the session up by stating that the evening had shown that co-operatives are a vibrant business model that can be important in a number of different business areas. Community involvement and ownership of these projects was vital and had unlocked significant equity finance. The Convener looked forward to seeing growth in this area now that the DTA Scotland led Community Shares project had been agreed.

4. **AOCB**

ScotWest Credit Union have linked up with the Young Scot organisation to provide Young Scot members, who are between 16 and 25 years old, with an easy access savings account through the Credit Union.

5. **Date of Next Meeting**

6pm, either Tuesday 24th or Wednesday 25th June, 2014 in the Scottish Parliament.

The Convenor thanked everyone for their attendance and closed the meeting.