Glenurquhart Rural Community Association

November 2018

About the Project

Glenurquhart Rural Community Association was established as an unincorporated organisation and registered as a charity in 1992. The organisation became a SCIO and development trust in 2017, a legal structure more suited to its aspirations to own and operate assets for the benefit of the community. The group currently owns the community hall in Drumnadrochit which is being renovated and two small pieces of land in the village. Historically, they have had limited funding from small grants and donations.

The group is now considering two potential asset transfer projects. The first is the Tourist Information Centre (TIC) in Drumnadrochit, which is currently owned by the council and leased by Visit Scotland and is due to close in autumn 2018. This is a 90sqm building, half of which is taken up by toilets (with a charge for access) and the other half consisting of visitor information and retail space. The second asset is the car park for Urquhart Castle, also owned by the council, currently free to use but likely to begin charging in the near future.

GURCA are taking a phased approach beginning with the TIC. A key priority is to generate a sustainable income and GURCA sought support from the Enterprise Accelerator programme to explore the option of acquiring a baggage transfer business currently run by a local businessman who is keen to retire.

What We Did

We carried out research into three potential funding options:

- Repayable finance – primarily loans offered by organisations with an interest in the social as well as financial return on investment

- Community shares - share offers where the primary motivation for investors is the social purpose

- Crowdfunding - an online fundraising tool which enables organisations to seek funds through donations or loans

What We Found Out

1. Repayable finance options

Charities and social enterprises can struggle to meet the lending requirements of high street banks. However, there are more specialist funders who provide finance and other forms of support and who are interested in social impact as well as financial returns. A summary of the some of the main providers is provided below.

The **advantage** of this type of funding is that it can allow organisations to achieve their aims more quickly than by traditional fundraising methods. The **disadvantage** is of course the risk of being unable to repay the loan. Terms can vary significantly between providers and a more detailed analysis of the benefits and risks involved in relation to GURCA's plans will require further discussion by the organisation with individual lenders.

Name	Product Description	Website and contact details	More information
Big Issue invest Scotland: Power up Scotland initiative	Tailored to early-stage social enterprises likely to be accessing finance for the first time	https://bigissueinvest.com/powerup/ Contact Michelle Davitt, Big Issue Invest Scotland Manager, to discuss an application michelle@bigissueinvestscotland.com / 07572 058368	**Amount available:** Up to £50k **Interest:** 5% PA. **Term:** Repayment of principal begins in Y3 – in most cases, the loan should be repaid completely by Y5/Y6. **Extras:** Repayment of interest only in Y2 and Y3. Includes mentoring and support. **Eligibility:** New social enterprises. Must be clear about social impact. **Applications:** In rounds, opens January
DSL business finance **(run by CEIS)**	Scottish Microfinance Fund, targeting businesses that have not met other providers' criteria.	www.dsl-businessfinance.co.uk Call 0141 425 2930 for more details	**Amount available:** £500 – £25,000 **Interest:** 6% PA, Online loan calculator available. **Fees:** no admin/early repayment fees. **Extras:** Free registration with Federation of Small Businesses.

	Social enterprise loans/small business loans		**Amount available:** £1,000 to £50,000 **Interest:** 6% to 9% PA. **Term:** up to 5 years. **Eligibility:** Funds ambitious small businesses – not specific to third sector
Coop finance		https://coopfinance.coop/borrow/ download a PDF application form and email it to info@coopfinance.coop.	**Amount available:** £10,000 to £75,000 are readily available, or up to £150,000 using other funds. Start-up costs, expansion, purchase of premises or building costs, part of larger funding package. **Term:** up to 10 years **Interest rates:** 6% - 10% PA **Fees:** Loan appraisal and arrangement, normally 1%-2% or £350, whichever is higher. **Security:** against assets where possible. **Extras:** ongoing support at no charge, facilitated networking. **Eligibility:** Organisations that are owned and controlled by their members. Can be new community businesses – must be incorporated, have a business plan and be economically viable. Must become members.
Esmee Fairbairn	Social investment in the form of different types of repayable finance to charities and other not-for-profit organisations, with the aim of creating social impact	https://esmeefairbairn.org.uk/social-investment info@esmeefairbairn.org.uk	**Amount available:** £60,000, up to £300k **Interest:** Average 5-7% interest **Term:** Average 5-7 year term. Normally no longer than 10 years. **Eligibility:** Can be used for: purchasing/refurbishing assets, working capital, bridging finance, expansion. Due diligence process takes 1-6 mths

Big Issue invest Scotland	Loans to Social enterprises	http://bigissueinvest.com/big-issue-invest-scotland-biis/ Call 0207 526 3437	**Amount available:** £20k to £3 million **Eligibility:** Ambitious, high growth social enterprises and charities (incl. BenComs) with a proven business model and track record and the ability to generate both income and social impact. **Applications:** rolling
Social Investment Scotland	Social Investment Scotland (SIS) is a registered Charity and Social Enterprise which provides business loans other charities and social enterprises.	http://www.socialinvestmentscotland.com/ Call 0131 558 7706 for an informal conversation	**Amount available:** From £10k to £1.6m **Interest, fees & term:** contact for more details **Extras:** Additional assistance offered prior to and following investment. **Eligibility:** Can finance purchase of assets or equipment, contribute to cash flow and bridge gaps between grants.
Charity Bank	Loan	https://charitybank.org/ Call 01732 441919 for more information.	**Amount available:** Up to £3.5 million available - generally no loans of under £50,000. **Fees:** arrangement fee generally 1% of loan amount **Extras:** Interest-only repayment period can be arranged in some cases. **Security:** required where available – can be in the form of a mortgage over assets. Where no material assets are available, loans can be made on an unsecured basis, but must be repaid within 5 years.
Triodos Bank	Loan	https://www.triodos.co.uk/en/personal/	**Amount available:** from £100k to £500k (lower amounts in exceptional circumstances) **Interest, fees**, charges and costs to be agreed on an individual basis. **Term:** up to 25 years **Eligibility:** Credit check required.

RBS Community & coop finance	Community & coop arm of commercial bank	www.business.rbs.co.uk/business/business-banking/services/social-community-capital.html Call 0207 672 1411	**Amount available:** £30,000 to £750,000 Flexible terms, including capital repayment holidays Must be investment ready in terms of management, governance and financial position, and be able to demonstrate sustainable business model. Assessed on a rolling basis
CAF Venturesome		https://www.cafonline.org/charities/borrowing/social-investment/development-fund	**Amount available:** £25,000 to £400,000 to build capacity or support cash flow **Interest:** Interest rate normally 6.5%. Upfront fee 1.5%. Illustrative loan calculator available. **Term:** 3-5 years. Immediate repayment. **Eligibility:** Must be incorporated in the UK, have a clear social mission, have been trading for at least one year and have an annual turnover of at least £60,000
Community Chest	Peer to peer lending initiative	https://communitychest.co.uk/ call Malcolm Caley on 07795 221420 or Kevin Caley on 07710 131458 or send an email to malcolm@communitychest.co.uk	**Amount available:** Unsecured loans of between £100k and £750k **Interest:** Rates set by platform depending on risk, typically 2%-10% Interest-only repayment for 3 years - capital to be repaid in Y4-5 **Eligibility:** Must be charity, BenCom or CIC with a viable project

2. Community Shares

Background

Share issues are a way of obtaining long-term risk capital from people who support the work of the organisation.

For investors in commercial companies, the motivation for purchasing shares is to maximise the return on investment through dividends and through the anticipated increase in the market value of the shares.

For community share investors the primary motivation is not personal wealth maximisation but to support the social purpose and objects of the enterprise. Financial motivation is at best secondary, and any return on capital is seen as compensation rather than a reward for risk taking.

Community shares are generally issued through Community Benefit Societies (bencoms). Bencoms are a specific legal instrument that is registered with the Financial Conduct Authority. Members of bencoms have only one vote regardless of the value of the shareholding. This retains the democratic structure and community control.

A bencom cannot be a trading subsidiary. However DTAS has developed 'hybrid' model rules which enable a bencom to act like a trading subsidiary and initial advice from Community Shares Scotland is that this is likely to be the most suitable model for GURCA.

Withdrawable shares

Community shares are non-transferable withdrawable shares i.e. they cannot be sold or transferred to third parties, except as allowed under the rules of the issuing society.

The rules can specify the terms for withdrawal, such as:

- The period of notice required to withdraw share capital (typically ranging from one week to five years). A longer period allows time to gather liquid resources to make the repayment.
- The proportion of total share capital that can be withdrawn at any one time. This can include linking it to the issue of new share capital.
- The total amount of share capital that can be withdrawn in a financial year.
- The right of the organisation to suspend withdrawal.
- The right to offer applicants only a fraction of the value of their share capital. This right is usually linked to an assessment that the net asset value of the enterprise can no longer support the full value of the share capital, justifying a temporary or permanent reduction in share value.

These conditions can be useful for helping the organisation to manage liquidity.

Withdrawable shares are not normally transferable, unless a member dies, in which case their shares are transferred as part of the member's estate.

Membership and voting rights are normally attached to share capital, although there can be more than one class of share, with different rights attached to each class e.g. a bencom may decide to issue a new class of share for a specific investment project, with its own withdrawal terms and interest rates, distinct from the terms applying to the original class of shares. This requires good management and transparency.

Support

Community Shares Scotland (communitysharesscotland.org.uk/) is the support organisation for any organisation interested in developing a share offer and can offer advice on a range of issues from legal structures to the practicalities of running the share offer. This includes consultancy support to help the organisation ensure their business plan is 'share offer ready' and access to a £5k microgrant to help towards costs of launching and running a share offer.

Pros and cons of community shares

Community Shares have been used effectively to support a wide range of community businesses including shops, pubs and renewable energy schemes. As with all funding options there are pros and cons to consider and these are summarised below:

Community Shares - Pros
• The bencom is a very democratic structure that is user and member led which may fit well with the ethos of GURCA • Good flexible opportunity to raise capital quickly that is debt but it is softer debt than other investment • In reality, in many examples shareholders really view these as semi-donations. • There is an infrastructure of support from Community Shares Scotland. • The great advantage of shares over other forms of finance is that if the shares carry limited rights to withdrawal, there is no obligation to repay them, though the FCA will expect a plan to increase the liquidity of the organisation to cover share withdrawal in a reasonable time.

Community Shares - Cons
• Shares can only be issued by a Community benefit Society regulated by the FCA. This would require a legal restructure. • The chances of financial reward through interest is slim. This might limit the appetite to invest. • Control sits with shareholders rather than members so those with control can only be those who invest.

3. Crowdfunding

Crowd funding is an online fundraising tool which enables organisations to seek funds through donations or loans. It works by raising often relatively small amounts of money from a large number of people and has proven increasingly popular in recent years. Alongside the money raised it can bring with it other benefits particularly in raising awareness of an issue or increasing an organisation's profile.

There are four main categories of crowdfunding

- Donation based
- Rewards based
- Peer2 Peer (P2P) and Peer to Business (P2B) loans
- Securities or Equity based loans.

In the first two scenarios, those donating money do not expect to receive a monetary return for their contribution – they donate because they believe in the cause. Under the rewards-based model people may receive an in-kind reward or gift but this is not the primary motivation for donating. Both donation based and rewards based crowdfunding are unregulated activities and do not need FCA authorisation.

Peer2Peer lending and securities and equity-based loans are more sophisticated financial products where investors are also looking for some financial return, either through repayment of the capital loan (with or without interest) or in the form of shares or a share of profit over time. These forms of crowdfunding are regulated and controlled by FCA.

Charities and social enterprises can use a range of funding platforms to crowdfund (e.g. crowdfunder, buzzbnk).

There are two basic approaches to crowdfunding:

- **All or Nothing crowdfunding** - None of the funding raised is handed over until the deadline. Where the financial target is not met by the set deadline, all money raised is returned to the donors or investors.

- **Keep It All crowdfunding** - this is where campaigners keep whatever money is raised by the deadline, even although the target has not been met.

Fees

Different fee structures are offered depending on the type of approach used. In general platforms will charge a percentage fee of the money raised and there are other costs e.g. for processing payments. Platforms may also operate different fee structures dependent on the success or otherwise of reaching the target, especially in the 'Keep it All' platforms i.e. a higher fee can be applied if the target is not hit. Under the 'All or Nothing' model, usually no fees are due if the fund-raising target is not met and all monies are returned to those who donated.

Timescales

A crowdfunding campaign can be fixed term i.e. with a set target to be reached within a set time frame, or open ended where there is a set financial target but no set time limit. Campaigns are however normally fixed term and fairly short.

Opportunities for GURCA

Crowdfunding can be a useful tool used in the right circumstances. It is generally good for raising small amounts of money rather than attracting significant levels of funding and this needs to be borne in mind when taking into account resources needed to set up and run a campaign. As well as providing a source of unrestricted funding, one of the main benefits that users report is its effectiveness at raising awareness and supporting connections to the wider community.

What We Recommend Happens

The information above has been provided to help inform the board's discussions about funding options for the development of a social enterprise and acquisition of the existing Loch Ness Travel Services business.

Further work will be needed to explore the individual options in more detail – to enable consideration of the pros/cons of each and any associated risks.

In developing their plans we would encourage the board to access support through DTAS, the support organisation for all development trusts and in particular Community Shares Scotland who can provide specialist advice in relation to the option of developing a share offer.