

Community Broadband Models

A paper outlining community-ownership structures most suitable for
community broadband scenarios

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(<http://www.beyondbroadband.coop/kb/community-broadband-models>)

Introduction

The realisation that the need to bring Next Generation Access to all communities in the UK will not be met solely by private sector investment has unlocked a range of responses. For some this has been to create the expectation that the Public Sector will fund the Private Sector to fill in the gaps. For others, it opens up the possibility that community engagement will create solutions that neither the Public or the Private Sector could create by themselves.

This paper has been written to help stimulate debate on what form this community action might take. It does not claim to be the definitive answer, but it is the first contribution whose starting point is the need to engage communities in the solution. In other words, it is seeing community-owned broadband as being primarily a community challenge rather than a technological one.

We are grateful to Cliff Mills and Kevin Jaquiss from Cobbetts who have provided specialist legal advice (their firm is experienced in legal structures for community and co-operative initiatives and partners Plunkett on community-owned shop model rules).

We would also recognise that it draws on the experience of a wonderful range of people who have chosen to solve the challenges that they face through community-ownership. We have drawn on this learning from shops, pubs, churches, energy, food, transport and many other vital services where

ordinary people, with limited technical knowledge, have chosen to deliver those services by coming together as a community.

The paper covers three broad and connected areas.

1. Engaging communities
2. Working with partners
3. Finding the right legal models

Engaging Communities

Communities don't want broadband, they want to solve the problems that broadband can solve for them. For many rural communities, having these problems solved for them is a long way off. The passive customer approach will leave them without a range of services that are increasingly shaping the modern world.

We suggest that there are four main relationships that communities can adopt. These are:

1. **DIY:** Some communities have, literally, done it themselves. They have laid fibre by digging trenches, then have created the infrastructure themselves. Such an approach doesn't just get the job done, it also lowers the cost of doing so.
2. **Commissioning:** Under this relationship, the community decides that it wants the service, but doesn't want to physically do it themselves. So it pays others to act on its behalf whilst retaining full control themselves. It should be noted that DIY and Commissioning are not mutually exclusive, both in terms of the approach (which could vary on different parts of the project) and in member relations (some may dig ditches whilst others just buy the service.)
3. **Partner:** The third relationship recognises that a project is only viable with additional resources from the Private or Public Sectors and that this will be in a form which alters the ownership of the enterprise. This is considered in more detail.

4. **Customer:** The sit back and wait approach will leave many communities without service. Communities can however work together to demonstrate demand to make it economically viable for others to take on or even operate services across a privately owned network.

Partners

The scale of the task, for many communities, will be such that they need to bring others onboard to create their network. We suggest that there are three dimensions to this:

1. **Private/Public** Both the Public and the Private Sector are potential partners.
2. **Investments/Assets** Both could bring with them either money invested into the network directly or through the provision of assets to the enterprise. There are a number of different scenarios here. Private investment could be from technology companies or investment vehicles. Public sector engagement could be financial or the use of existing infrastructure for community benefit. The exact nature of these is less important in this paper than being clear what each partner expects for the use of their assets by the enterprise.
3. **Investment/Oversight** Broadly speaking, these assets could be supplied with a range of expectations:
 1. *Passive* – for instance a grant given without any expectation of return
 2. *Influence* – there is an expectation that the provider of the resource will be able to monitor the delivery of the network
 3. *Return* – the provider will be compensated for the use of the asset at a fixed rate determined at the time of investment
 4. *At Risk* – the level and timing of the compensation will be decided in the future based on the profitability of the network
 5. *Control* – the provider of the asset will be part of deciding the long term future of the network

From these flow three relationships that an asset provider might have:

- **Commissioned** – the provider is recompensed for their asset but has no say in the operation of the network
- **Oversight** – the provider has access to the workings of the network (e.g. seat on the Board), but the network is owned by the community
- **Ownership** – the provider owns the network alongside others

Legal Models

Not all community broadband schemes are the same. We suggest that there are four main types.

1. **Individual-driven Social Enterprise:** Where an individual or small group wants to demonstrate a strong social purpose to their work, but doesn't want community engagement or investment.
2. **Community-owned Broadband** Where the engagement and investment of the local community is a vital part of the business plan.
3. **Profit distributing community owned enterprises**
4. **Partnerships**

Individual driven social enterprises are most likely to benefit from the Community Interest Company (CIC) model as this doesn't require widespread community democratic control, but does enshrine social purpose. The main drawback it has as a model is that it was created after the current financial promotions legislation was drawn up, so doesn't enjoy the exemptions that co-operatives and bencoms have regarding community investments. CICs limited by guarantee cannot issue shares, but can promote the sale of bonds and offer membership as a separate consideration. They cannot issue withdrawable shares.

Community-owned broadband

Where the engagement of the community is a vital part of a business plan, then the Society for the Benefit of Community (Bencom) model is the most suitable.

This allows a broad range of investors on a one member-one vote basis. It can use withdrawable shares as a community share model. It locks in a clear community benefit for the enterprise which will assist in establishing its relationship with public sector bodies. An asset lock can be applied to its assets.

Bona Fide Co-operatives

The main advantage of bona fide co-operatives is that they allow individual profit distribution. This comes at the cost of:

- Enshrining community benefit as the main purpose of the enterprise
- The ability to asset lock

Bona fide co-operatives are best for communities who have chosen to sacrifice protecting mission so as to enable personal profit. Our experience is that rural communities are wary of such approaches, but it should be presented as an option. Bona Fide Co-operative is a legal term and does not imply that Bencoms are not also a co-operative model.

Special Purpose Vehicle (SPV)

There has been much discussion on bringing external funding into community structures. The advice from Cobbetts is clear. Create a structure that meets the community needs and then connect it to an SPV to meet external investor needs. Do not dilute the community interest in the primary structure. This is the advice that we would give to Adrian's recent note about the Bill Murphy meeting.

Community Ownership

As the remit for this project was to consider community owned broadband, we consider the best model for community-owned broadband to be a Society for the Benefit of the Community (Bencom) under the Industrial and Provident Societies Act. This co-operative model has a number of distinct advantages:

1. It is based on the concept that broadband is a community asset and the interests of that community should be at the core of its provision.
2. There is one member-one vote, so all members will have an equal say in the direction of the enterprise.
3. It can provide a strong asset lock to ensure the long term protection of the network.
4. It provides a range of finance options including being the easiest vehicle for community share investment, investment by other IPS societies, loan finance and bond finance.
5. It also recognises the issue of people moving in and out of the community over time.

It is not profit distributing, although it can recompense people for investment. If a community wants profit distribution then a Bona Fide Co-operative is a more suitable model, although this would remove the option of having an asset lock. Community Interest Companies (CICs) are better suited to shareholder relationship based models, so would be better for the individual (or small group) social enterprise approach.

Within the Bencom model, there are a number of decisions to be made in relationship to broadband delivery which will need to be decided by each network.

If community shares are used - is the person investing in the scheme overall or in bringing broadband to their home? This will, in part be determined by the nature of the area served.

Do all users have to be members or will members receive a discounted service? Under the second, investors are, in essence, paying upfront for a discounted future service.

Given the long time scale, it is highly likely that people will move in and out of the network area and the model will need to decide how this is handled.

A highly sensitive area is that of service cost. Let us imagine a scenario where a town has a large number of dwellings that it will cost £300 per home to

connect. It then reaches out to the neighbouring countryside including a remote house that will cost £3,000 to connect. What should that house be charged? Should there be one price for everyone, in which case the town dwellers are subsidising the rural, or should the network charge the extra cost to the remote house. Such a decision is for the democratic structure to the enterprise to decide.

Working with Partners

Earlier sections have flagged the range of partnerships which might be formed. Broadly, we would recommend the following:

Where the partners expect to share the profits from the Network then we would recommend the forming of a Special Purpose Vehicle (SPV) to handle this relationship. The Bencom would be one of the members, thus keeping the community interest intact, alongside the other partners. A number of models could be used including Company by Rule or Limited Liability Partnership. An SPV is useful to balance interests, but should not be seen as the default model for community-owned broadband as it weakens the community role.

Conclusion

This paper has aimed to stimulate thought and discussion. It will need to be updated as more communities add their own needs and experiences to it as new enterprises emerge.

What, however, will not change is the need for networks to avoid being enamoured by the technology or the possibility of external investment, vital though both may be. Instead they need to remain focused on how unlocking community