



Wessex
Reinvestment Trust

Financial Mechanisms Research Project



Final Report January 2008

This project has been supported by:



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1 Introduction

1.1 Aim of the Project

Wessex Reinvestment Trust's Financial Mechanisms Research Project has sought to increase the flow of investment into community initiatives and social ventures.

Two issues were identified at the project inception phase:

- The need for CDFI's to replace Phoenix programme funds, which ceased on 31 March, 2006.
- The need to raise finance for community asset projects, to match against commercial finance and social investment from national institutions.

The original application to the Esmée Fairbairn Foundation and the Friends Provident Foundation outlined a number of aims for the Financial Mechanisms Research Project:

- a. Conduct a structured examination of the different types of investment finance and incentives that WRT (& others) might use to raise funds for both loan capital and asset creation.
- b. Carry out market research amongst potential investors to establish if there is an appetite from ethical and local investors.
- c. Design and develop 3 - 5 product offerings that are attractive from both the investors and borrowers' point of view.
- d. Raise upwards of £1.0 million through the issuing of three mini pilot prospectuses covering a suite of new investment products appropriate to the needs of both loan capital and asset creation.
- e. Embed the knowledge gained within the staff structure of WRT and, through a learning cluster, raise awareness amongst a group of practitioners and other stakeholders.
- f. Disseminate the learning through a conference and a subsequent written report highlighting the learning 'nuggets'.

1.2 Scope of the Project

Following previous research and investment activity during the period 2004 - 2006, Wessex Reinvestment Trust chose to focus initially on three areas:

- Housing (including affordable housing on the community land trust model and sustainable housing developments).
- Workspace and community facilities.
- Food, including local and organic food enterprises.

The starting point for the project was the high cost usually entailed in raising loan and equity finance.

Loan finance: there is an increasing range of loan finance available for community initiatives and social ventures, but existing providers - most of which are national organisations - have a number of drawbacks:

- the rates of interest may be high;
- the loan application procedure may be protracted and time-consuming, due to the lenders' lack of local knowledge;
- security may be required, and this may be difficult for community organisations and social enterprises to provide;
- in the case of housing projects, only 70 % of the development finance will be lent by commercial/social investment providers.

Equity finance: if a company undertakes a share issue, the costs of issuing a prospectus are usually very high (at least £50,000) because of the due diligence requirements demanded by the Financial Promotions Regulations.

The Wessex Reinvestment Trust Financial Mechanisms Project has sought to address these issues by developing new ways of raising loan and equity finance. The research over the last 18 months has concentrated on the Industrial and Provident Society Community Benefit legal format, and new models have been developed and registered with the Financial Services Authority.

The second key element of the project has focused on developing Wessex Reinvestment Trust's role as a local financial intermediary. It works with partner organisations on the ground in Devon, Dorset and Somerset to develop a close understanding of two initial markets: food and housing. Future sectors will include renewable energy, recycling, care and creative industries. The aim has been to support community initiatives and social ventures seeking to raise finance in these sectors. Wessex Reinvestment Trust has supported organisations seeking to raise funds directly (e.g. Local Food Links, High Street Organics and Ecos Homes) and has also established a fund for on-lending into community land trust housing projects (through the new Wessex Community Assets IPS).

1.3 The Wessex Group

The project was undertaken by Wessex Reinvestment Trust group, a rural CDFI (community development finance institution). The Wessex Group consists of a "family" of companies: Wessex Reinvestment Trust, a registered charity, Wessex Reinvestment Society Ltd, an Industrial and Provident Society (registered for the Benefit of the Community) and Wessex Core Company Ltd a Company Limited by Guarantee (which focuses solely on home improvement lending).

The Wessex group was formed in 2002/3, following research across Devon, Dorset and Somerset which sought to identify gaps in the provision of finance to small businesses, social enterprises and voluntary organisations. This research identified the intrinsic link between employment, enterprise and property and revealed demand for locally delivered loan services to develop enterprise and facilitate access to affordable housing and workspace.

The solution proposed to bridge the gap was the creation of a Community Development Finance Institution. CDFIs, as they are known, seek innovative approaches to community regeneration and aim to fill gaps that conventional sources, like banks cannot meet alone. An initial two-year pilot delivery phase commenced in April 2004 with three areas of work successfully delivered:

- Funding for rural enterprise - loans between £500-£20,000 to support small businesses and social enterprise start-ups and expansion. The Wessex Group managed to secure £450k from the Small Business Service Phoenix Fund initial and £50K from Esmée Fairbairn Foundation. This initial loan capital of £0.5m is now fully lent.
- Loan finance for housing - typically loans of about £5000 for low to moderate income homeowners to tackle disrepair. The Wessex Group is working with a consortium of 10 local authorities to deliver affordable homes in order for owner occupiers to bring their homes up to the 'Decent Homes' standard. The consortium has secured £2.6m which has been passed to Wessex as the capital base for the Home Loan Scheme. A further £250,000 capital has been received. At the end of March 2006 more than 120 referrals had been received from the local authorities and funds in excess of £470,000 have been either committed or lent.
- Access to property and workspace - by facilitating pioneering land and property transactions, transforming redundant land and property into affordable housing and workspace for the benefit of the wider community. The provision of community technical aid was identified as a key priority and as a result The Wessex Group has been a key delivery agent within the Devon Reinvestment Service (a partnership with Devon County Council and Business in the Community). About 10 rural communities in Devon have benefited, two of which have formed Community Property Trusts at High Bickington and Holsworthy. These have been set up for the provision of affordable 'intermediate' market housing. In addition, The Wessex Group undertook the feasibility and business plan for the Bridport Community Property Trust and has supported the Lyme Regis Development Trust in securing ownership of its building. The Wessex Group was instrumental in facilitating a cocktail of capital funding for the Development Trust, including a significant loan from The Wessex Group and a £100,000 grant from the Government Office. Finally, The Wessex Group has supported the development of community land trust housing proposals in Dorset (Buckland Newton and Worth Matravers).

1.4 Project Funders: Friends Provident Foundation and Esmee Fairbairn Foundation

The Friends Provident Foundation and the Esmee Fairbairn Foundation committed funds to Wessex Reinvestment Trust to conduct the research into financial mechanisms.

Both foundations have a commitment to the development of social investment, programme related investment and the development of CDFI's.



2 Community Development Financial Institutions: their potential role as locally based intermediaries

2.1 The Financial Environment in the UK: An Overview

Over the last two years there has been increasing interest in the concept of “social capital markets”. The suggestion is that the existing capital markets can be adapted to provide a flow of finance into social ventures and community asset projects. The Wessex Group believes that this faith in the potential of capital markets is misplaced, and that additional financial mechanisms are required.

In the UK, investment in companies is overwhelmingly financed out of internal funds (i.e. undistributed income). Companies can raise funds through a public offering of shares, but the costs of administering such a share issue are usually considerable. Hence most firms do not raise a substantial proportion of their funds for on-going investments from the stock market. Most firms borrow from banks to finance their working capital, but longer term capital investment is usually financed by internally generated funds (including depreciation provisions and retained profits).

There is a common misconception that capital markets exist to provide new equity capital to companies, but in reality the London Stock Exchange ‘makes little net contribution to investment finance in the UK’.¹ There is a new issue market, where companies seek money from the public, either directly or through financial intermediaries, against the issue of some form of security. However, the size of this market is dwarfed by the size of the secondary market, in which second-hand securities are traded. The majority of transactions, then, in financial markets involves a “re-shuffling” of existing assets. Moreover, share prices and dealings are influenced increasingly by short-term profit figures and stock market “sentiment”.

As long ago as 1936, Keynes² was arguing that professional traders within capital markets had become largely concerned ‘not with making superior long-term forecasts of the probable yield of an investment over its whole life, but with foreseeing changes in the conventional basis of valuation a short time ahead of the general public’. The prime motive for buying shares thus becomes speculative capital gain (from short-term movements in the market price) rather than long-term dividend yield.

Manuel Castells³ describes how national financial markets have become globalised over the last 30 years: ‘The same capital is shuttled back and forth between economies in a matter of hours, minutes, and sometimes seconds. Favoured by deregulation.....and the opening of domestic financial markets, powerful computer programmes and skilful financial analysts/computer wizards sitting at the global nodes of a selective telecommunications network play games, literally, with billions of dollars.....These global gamblers are not obscure speculators, but major investment banks, pension funds, multinational corporations.....and mutual funds organised precisely for the sake of financial manipulation.’

The Wessex Group seeks to offer investors in the South West an alternative - or at least a complementary - investment opportunity. The investment offerings developed by The Wessex Group, in partnership with organisations on the ground, have greater “traceability” and greater social impact, which will compensate for any reduction in financial return.

2.2 Private Equity

Alongside the increasing focus of financial markets on the speculative trading of existing securities has been the rise of the private equity market. Private equity is the term given to share investment outside of stock markets, and is defined as “medium- to long-term finance provided in return for an equity stake in potentially high-growth unquoted companies”⁴. Private equity includes venture capital, which is the building of companies from a low base, management buy-outs, and the conversion of quoted companies into private businesses. The venture capital industry invests billions of pounds in a relatively small number of companies, and seeks an average internal rate of return of 20 %. Private equity is coming under increasing scrutiny and some commentators have described venture capital in particular as “fast money”.

2.3 Slow Money

¹ Neale, A (1989) *Economics in a Business Context*, VNR, London.

² Keynes, J.M. (1936) *The General Theory of Employment, Interest and Money*, Macmillan, London.

³ Castells, M. (1996) *The Information Age*, Blackwell, Oxford

⁴ Arnold, G. (2004) *The Financial Times Guide to Investing*, Prentice Hall, London

Over the last 3 years, Wessex has sought to invest in food and farming businesses which support the “slow food” ethos. An interesting parallel has recently been drawn between “slow food” and “slow money”:

‘Seen through Slow Money lens, using the powerful tool of venture capital to nurture sustainable food companies is like flying an aircraft to the shop for milk. What we need are new investment vehicles that seek not to maximise speed and power, but rather to optimise directly the health of communities and natural systems. Seen through the Slow Money lens, the speed of global financial markets is enabled when links to people and place are attenuated or severed. What is needed are radically new approaches to investing that use capital to build food enterprises as if place mattered. Listening with a Slow Money ear, questions may be heard that extend beyond the farmer’s field: What if you had to invest 50% of your financial assets within 50 - 200 miles of where you lived? The idea would be to recognise and respect watersheds and bioregions as fundamental to healthy economies, and to nurture spheres of local exchange’.⁵

2.4 Blended Value

Investors seek a combination of social return and financial return on their investment. One body of thought - represented for example by Milton Friedman and the Chicago school - argues that investors should seek only to maximise financial return, and that any attempt to combine financial return with social return causes a distortion in the efficient operation of the market. By this argument, investors should maximise their profit, and then can decide to donate some to charity.

However, there has always been a body of thought which disagrees with this approach, and argues that overall value creation will be greater if investors seek a “blend” of social return and financial return. Jed Emerson, an American social enterprise practitioner and academic, has sought to define and promote this “blended value” approach.

Investment is seen as the provision of capital, which seeks a financial and/or social return. Investment can be in a range of forms: from pure grant which seeks only social returns, to pure equity which seeks to maximise financial return from capital growth and/or dividend payments.

2.5 The Potential Role of Community Development Financial Institutions in Providing “Appropriate Finance”

A Community Development Finance Institution can act as an intermediary for investors, providing an efficient channelling of investment funds into projects which provide the right combination of social and financial return. This requires an appropriate set of “financial mechanisms”, which allows this intermediary role to take place. In the case of The Wessex Group, the aim is to channel investment into the sectors identified above: housing, workspace and social ventures.

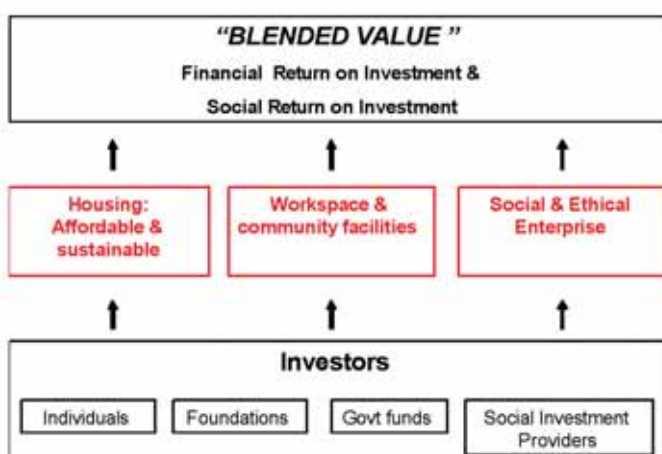


Diagram 1: Investment into priority sectors in order to create “blended value”

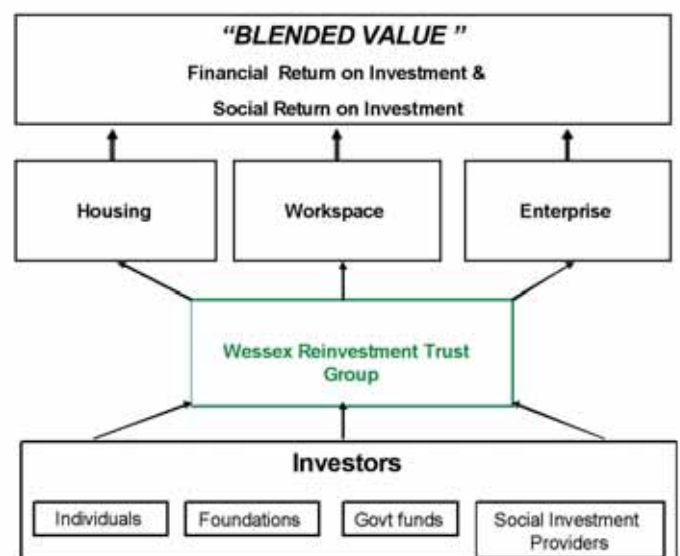


Diagram 2: The role of Wessex Reinvestment Trust as an intermediary in the provision of funds



3 Initial Research into New Financial Mechanisms

3.1 The Legal Model

The initial role of the Wessex Reinvestment Trust Financial Mechanisms project team (which includes Dr. Robin Keyte, of Towers of Taunton, and Bob Paterson, of Community Finance Solutions) was to identify the most suitable vehicles through which to raise social investment. The next task was then to develop model rules, investment appraisal procedures and draft prospectuses to facilitate the raising of finance.

Various potential investment vehicles were researched, including open-ended, closed-ended, equity and bond mechanisms. In the end, given the community organisations and social enterprises that Wessex is trying to help in raising investment, and also their lack of financial resource (many relying heavily on volunteers), it became clear the main driver for the choice of vehicle was cost.

Therefore the financial mechanism would have to be cheap to set up, and cheap to raise money through. Unfortunately, the financial promotions regulations under the Financial Services & Markets Act 2000 ("FSMA"), add a seemingly unavoidable layer of cost of between £40,000 and £80,000 to any invitation for investment, through 'due diligence requirements' and related work. This layer of cost presently exists for all share companies, including Community Interest Companies, seeking investments.

Wessex then researched the prospectus launch for Fair Finance, an Industrial & Provident Society in the East End of London. The launch was particularly relevant as it set a precedent post FSMA for an Industrial & Provident Society to solicit investments in a manner that was exempt from the financial promotions regulations.

Article 4 of the Financial Services and Markets Act 2000 (Exemption) Order 2001 (weblink: <http://www.opsi.gov.uk/si/si2001/20011201.htm>), entitled "Persons exempt in respect of accepting deposits", states that anyone / anything listed in Part II of the schedule is exempt from general prohibitions in respect of the regulated activity of accepting deposits.

Under Part II of the Schedule, number 24., it includes "an industrial and provident society, in so far as it accepts deposits in the form of withdrawable share capital."

Therefore, as long as an Industrial & Provident Society prospectus takes deposits in return for withdrawable share capital, Wessex can avoid most of the regulatory due diligence requirements (and huge related cost) normally associated with a prospectus. The main emphasis remains that a prospectus must be true, fair and not misleading and it must outline the risks to investors, which the Fair Finance prospectus does.

Since the launch of the Fair Finance prospectus there have been new Statutory Instruments in this area, specifically SI 2005 / 1433 (The Prospectus Regulations 2005) and SI 2005 / 1529 (The Financial Services & Markets Act 2000 (Financial Promotions) Order 2005). Whilst we still believe in principal that using an IPS Benefit of the Community model with non-transferable share capital will allow us to launch a prospectus soliciting investments in a way that is outside the financial promotions regulations, the "back-end" text clearly need to be amended to deal with the later Statutory Instruments and the solicitor Malcolm Niekirk has advised us on this.

In summary, it is our view that an Industrial & Provident Society is presently the most effective vehicle for raising funds for social / community / environmental projects as it can:

- raise money via borrowing / loans;
- raise money via grants from charitable foundations / grant awarding bodies;
- raise money via soliciting social investments in return for 'withdrawable' share capital in a manner that is exempt from the financial promotions regulations under FSMA.

3.2 Market Research

Research was carried out to gain a better understanding of potential investor interest in local social investment opportunities. A postal questionnaire was sent to 200 members of two local development trusts. The questionnaire presented two potential investment scenarios and questions asked about people's interest and

likelihood of support. The full analysis is in Appendix 1 and is based on 61 returns. The high level of return showed that development trust members are a strong potential market for investment offerings.

The results revealed that investors will seek security in some form and will view the environmental benefits as more important than social benefits in motivating them to invest. Investing in projects in their own locality was also seen as important though local includes county and region not just the town. The multiple benefits of an investment scheme would be important to emphasise in order to generate the most interest.

The rate of return on investment was not seen as critical suggesting that a high financial return is not critical. Security and risk were linked and it would appear that ethical investors are seeking a low risk investment but are willing to accept a lower return. Investment over a three to five period was considered acceptable. Finally investors will seek evidence of the claimed social and environmental benefits of any investments.

This research was used in deciding the way in which investment opportunities were presented and the strategy for local marketing.



4 Development of Appropriate Financial Mechanisms

4.1 Choice of Investment Vehicle:

As explained above, the key driver is the cost associated with soliciting investments, in particular the cost of 'due diligence' associated with the FSA Financial Promotions Regulations (even Community Interest Companies are subject to Financial Promotions Regulations).

Uniquely, Industrial & Provident Societies can be exempt from FSA Financial Promotions Regulations; and using the IPS "Benefit of the Community" model will also protect the social and ethical aims of projects supported by The Wessex Group.

4.2 Creating an Industrial & Provident Society:

An Industrial & Provident Society (IPS) can be established from scratch by a minimum of 3 initial subscribers (or 2 initial subscribers if they are both Industrial & Provident Societies); an Industrial & Provident Society can also be established by converting a limited company.

In both cases, a set of Industrial & Provident Society rules has to be adopted and then registered with the FSA; a model set of rules can be acquired by subscribing to what the FSA calls a 'sponsoring body'. The 'sponsoring body' must have previously agreed their model rules with the FSA and help subscribers to register with FSA.

There are broadly two types of Industrial & Provident Society rules:

- those for projects aimed at benefiting the members of a co-operative;
- those for projects aimed at benefiting the wider community.

The Wessex Group is operating somewhere in the middle between these two categories: in essence the aim is to establish co-operatives of social investors to support projects that benefit communities.

The FSA would support a "BenCom" IPS raising funds without regulation as the prospectus would make it clear that the investment is not secure, and investors main aim must be community benefit.

4.3 Categories of Projects Seeking Investment

The Wessex group has identified two main categories of project seeking investment: "enterprise projects" and "community asset" projects.

4.4 Community Assets Projects

Community asset projects include community land trust housing developments (to provide affordable housing), sustainable housing developments (sold on the open market), and community workspace projects (such as multi-use community facilities or managed workspace).

The Wessex group decided during the course of the research to create an Industrial & Provident Society to raise investment capital which can 'on-lend' to various community asset projects. Model rules have been negotiated with the FSA, and it has been agreed that the new IPS will need to operate as a Community Development

Finance Institution (CDFI). The FSA has requested that special additional rules be included to protect investors supporting Industrial & Provident Societies that on-lend. The FSA has cautioned against objects / activities that might stray into regulated activities such as taking a 1st charge of an individual's home.

Starting from a set of draft rules for a 'benefit of the community' Industrial & Provident Society provided by Malcolm Niekirk then of Lester Aldridge solicitors (now of Coffin Mew solicitors), the research team substantially adapted and redrafted these rules, with the help of the FSA, to provide a set of model rules aimed at raising investment to on-lend to Community Assets projects. These rules are now registered with the FSA, and were used as the basis for the setting up of Wessex Community Assets Ltd and Ecos Fund Ltd.

4.4.1 Wessex Community Assets

Wessex Community Assets Ltd (WCA) was registered with the FSA on 24 January, 2007. Membership was drawn from existing Wessex Reinvestment Trust group directors, and subsequently a board was appointed.

The rules of WCA are included in the appendices. In addition, the research team (principally Anthony Salt, The Wessex Group's Company Secretary) has developed a Code of Practice for the operation of WCA in line with Community Development Finance Association (CDFA) guidelines. In addition, the FSA requested "Best Practice Guidelines" which should be applied to any new IPS registered using Wessex model rules. The Code of Practice and the Best Practice Guidelines are available on the Wessex website: www.wessexrt.co.uk.

4.5 Enterprise Investment Projects

The Wessex group, as part of this programme of work, has decided that rather than seeking finance to on-lend to enterprises, it will establish new, or re-constitute existing, social or environmental enterprises as an Industrial & Provident Society to raise investment capital which can be used to develop the enterprise. This is a different approach to community assets, as there is no 'on-lending', and Wessex is promoting investment directly into the enterprise.

One of the main reasons for this approach is that for trading activities that are 'qualifying', Enterprise Investment Scheme relief is available (this is a tax reducer equivalent to 20 % of the investment made). This tax relief serves to compensate for the additional risk associated with the enterprise investments (in particular a lack of security). Significantly, if the investment were made into a central Industrial & Provident Society which then makes investments into separate social or environmental enterprises, then Enterprise Investment Scheme relief will not be available.

Wessex Reinvestment Society has therefore developed a second set of model rules, tailored towards investing into social or environmental enterprises. Again starting from a set of draft rules for a 'benefit of the community' Industrial & Provident Society provided by Malcolm Niekirk, the project team has substantially adapted and redrafted these rules with the help of the FSA to provide a set of model rules aimed at raising Enterprise Investment. These rules are now registered with the FSA, and the first "Enterprise IPS" has been registered - this entailed the conversion of Local Food Links Ltd from a company limited by guarantee to an IPS for Community Benefit. Wessex Reinvestment Society acted as the sponsoring body.

4.6 Prospectuses

Wessex Reinvestment Society has used the Fair Finance prospectus as a model. It falls into two parts, the marketing part at the front and the technical 'compliance' wording at the back. It is the wording at the back that has ensured the prospectus remains exempt from the FSA's financial promotions regulations. Wessex has adapted the technical wording at the back and used as a model for prospectuses. The main requirement is that all information contained within the prospectus must be 'true, fair and not misleading'; in this respect, there is an 'internal due diligence' requirement to be met whereby the Industrial & Provident Society maintains records that support any claims contained in the text used in the prospectus.

4.7 Development of Expertise within The Wessex Group

The Wessex Group is developing the expertise needed to act as a sponsoring body, to help affiliates to:

- adapt the model rules with the minimum of amendments to meet the objects and needs of the affiliate;
- avoid straying into regulated activities with the community assets model;
- carry out their internal due diligence to ensure they can demonstrate their prospectus is true, fair and not misleading;
- acquire Enterprise Investment Scheme relief where the project is a social or environmental enterprise;
- to develop and uphold a Code of Practice for Industrial & Provident Societies, particularly aimed at those that on-lend to community assets projects.

4.8 Primary Market / Secondary Market

The research so far has been aimed at finding primary investors. One of the longer term goals is to find secondary investors and establish a 'market' for social investments. Early discussions have been held

with Brewin Dolphin Securities (registrar for CafeDirect) about some form of matched bargain service. Whilst the withdrawable share capital detailed in both sets of model rules is not transferable, it is conceivable that a secondary investor might buy new withdrawable shares and the money received is used to pay out the primary investor. The one drawback here is that the Industrial & Provident Society assets would have to be valued regularly.

4.9 Tax Exemption

As explained above, investment directly into an enterprise (as opposed to a fund used for on-lending as in the case of Wessex Community Assets), may qualify for Enterprise Investment Scheme tax relief. HMRC agreed advanced assurance for EIS relief for High Street Organics and for Local Food Links. The organisation has to adopt the new model rules, and the IPS will have to trade for 3 years. Investors will have to invest for at least 3 years. Investors get the equivalent of 20 % of the investment as tax relief against their income tax bill in that same tax year.



5 Projects Selected for Investment

5.1 Appraisal Process

In order to arrive at a range of projects to pilot the members of the project team sought out a range of enterprise and property projects. A screening form was created to record all possible projects and used to assess suitability of projects for piloting. As the project progressed it became clear that many of the potential projects would not be ready for investment in the timescale. Initially there were:

- Five local food projects;
- Five community land projects;
- Two property projects.

Only two local food projects proceeded to adoption of the model rules. The other projects failed to proceed because they were not a stage where they could be invested in: one food delivery business needed to be restructured and adopt the rules and its board has yet to agree to a restructuring, a food centre project was assessed as unviable because of the cost of the premise to be refurbished and a food processing business was still developing its business plan.

The community land trust projects were all deemed to be viable and were included in the community asset projects prospectus.

Of the two property projects both were deemed to be viable but only one was ready to proceed with a public share issue the other was still seeking agreement for purchase and refurbishment of premise.

So four projects were left that which seemed to be ready and have the capacity to proceed to raising investment. By the spring of 2007 three of the pilots were ready to draw up a prospectus and proceeded to a public offering the summer of 2007.

5.2 Community Asset Projects Through Wessex Community Assets

Wessex Community Assets (WCA) is a member of the Wessex Reinvestment Trust Group of companies and was created specifically to provide finance solutions for community owned property. The Wessex group has the vision of communities empowered to create a decent future for all who live and work in the South West, and works towards this vision by facilitating a flow of investment into social and community ventures. The group has always been concerned with facilitating access to land (with regard to affordable housing and workspace) and has undertaken several pieces of work to enable organisations and communities to own their land, e.g. brokering an arrangement to enable Lyme Regis Development Trust to purchase a building, and hosting a Carnegie UK Trust funded project to support the development of Community Land Trusts (CLTs) as a community led mechanism for providing affordable housing. CLTs are a way for the community to create affordable housing in perpetuity for local people who are priced out of the housing market. Through this work, and the interests of the directors of the group, Wessex group has developed expertise in this area, with particular regard to supporting emerging community land trusts on technical matters including financing. It became clear to the Wessex group that a community led finance solution was required for this locally driven movement.

The initial problem that Wessex group aimed to resolve was that of bridging finance to build houses. Once a CLT has obtained land and gained planning permission to begin constructing affordable homes for local people, it needs funds to enable development to occur. Commercial banks and building societies, such as HBOS, Nationwide, Halifax and Ecology, are prepared to lend up to 70 % of costs but there is a gap in provision of the final 30 % of funds. This 30 % would be at higher risk, deterring lenders.

The Wessex Group decided to launch a new legal entity within the group, named Wessex Community Assets Limited (WCA), to be the host of a revolving loan fund, the money in the fund to be raised by share issue, then on-lent to community land trusts, to provide bridging finance, to be repaid on the sale of their units of affordable housing. A board of directors was set, comprising interested directors of other organisations within the Wessex group, and WCA was registered by the Financial Services Authority on 24 January 2007 as an IPS for the benefit of the community using the Wessex Model Rules (the community assets model - as this allows for on-lending activity to take place). From then on the board were concerned with developing a prospectus to promote the launch of a share issue to raise the necessary funds. The wording of the prospectus was drawn up and consulted on, and a detailed due diligence file was compiled ensuring that all statements made in the prospectus were true, fair, and could be evidenced. The prospectus was then reviewed by the solicitor who was part of the project team involved in developing the model rules, Malcolm Niekirk, who was able to confirm that he was satisfied that it was compliant with all regulations.

The prospectus was launched on 30 June 2007 with a closing date of 30 November 2007. Some PR activity had occurred around the launch of the financial mechanisms project generally, following this two press releases were issued on the launch of the WCA prospectus which generated some local press interest. Marketing activity focussed on contacting charitable trusts and foundations, local businesses (through Chambers of Commerce), Housing Associations, contacts made through events (for example the attendees of an alternative economics conference held by the Diocese of Exeter), and latterly, the general public in areas where CLTs were emerging. It can be seen as a mistake now not to market this product to the communities around existing and emerging CLTs sooner as these communities are likely to be a key market of potential investors. It was not done nearer to the beginning of the launch as alternative sources of financing were being actively sought for these trusts and there was no wish to interfere with arrangements being brokered (for example one local CLT managed to find the bridging finance it needed via local authority and housing association intervention).

It can be seen generally that the very positive moves in the last six months towards more sources of finance for CLTs have affected the launch of WCA. It is now becoming more likely that Housing Corporation finance will be available for development costs (the green paper announcing this was released at the same time as the launch of the prospectus). This could lead to a perception that there is less need for the affordable homes fund provided by WCA. On reflection WCA realised that it needed to address this new, positive diversity of funding sources in its prospectus, and a last minute addendum was included in the prospectus. The view of WCA is that a range of financing options need to be available to CLTs, and the unique selling point of the WCA product is that it is completely community driven (funds raised from the community for the community) and therefore free of any obligations to government. The directors of WCA have acquired a great deal of technical expertise on the setting up of CLTs, this leads to a greater understanding of requirements and a greater amount of flexibility in the finance solution available.

At the close of the share offer period WCA had raised £9,200 from outside investors along with a £20,000 seeding contribution from Wessex Reinvestment Society, a sister organisation. This was somewhat below the target required to carry out the lending initially anticipated (it was thought that at least £100k would be required to carry out lending activity). The board of WCA has the opportunity now to review the lessons of the last six months and update its business plan in the light of the fast moving external events in this area. It aims to re-launch for a further six months on the basis of the new business plan focussing on the benefits of a WCA loan as a complimentary source of funding in addition to the existing sources and to enable CLTs to be financed independently of local authorities and other governmental bodies. There is still not a large amount of funding options out there for community led initiatives and a diversity of funding options is always preferable, including those to match the ethos of the organisation receiving the funding.



5.3 Ecos Fund

Ecos Homes, a leading green developer owned by a charity set up to promote sustainable building, completed its first private development in 2006 and begun seeking new investment for a new building programme in early 2007. In early 2007 the boards of Ecos Trust and Ecos Homes agreed to support the establishment of a separate investment vehicle - Ecos Fund, an IPS using the Wessex model rules. The decision was taken because it allows Ecos Homes to access investment rather than loan finance and so have a stronger balance sheet and access finance for development of the business. The first project of Ecos Homes had been financed from unsecured loans from a small number of supporters able to risk considerable sums to establish

the business. In the first four year Ecos Homes had been chaired by an experienced property developer who had acted as a business angel investing a six figure sum in the company's first project.

Ecos Fund was formed and registered using the WCA model rules on 7 February 2007 with three founding directors - one is a trustee of Ecos Trust and former chairman of Ecos Homes, one a Director of Ecos Homes and one an investor in Ecos Homes. The close link with Ecos is clear but it is accepted that the Fund will be able to invest in a range of projects not linked to Ecos Homes that create sustainable communities.

Between February and May a detailed prospectus was written. A format was adopted that was consistent with the other pilot prospectuses and was supported by a general brochure that had a detailed description of the first project undertaken by Ecos Homes and the relationship between the Trust, Homes and the Fund. The prospectus offered shares in Ecos Fund which then was able to purchase shares in Ecos Homes. It is intended that this investment will replace the commercial “mezzanine” finance needed to be invested at risk and normally attracting at least 12 % annual return. Ecos Fund is expecting to receive a return of 8 or 9 % from Ecos Homes which it will use to pay interest to its shareholders of between 8 and 9 %. The fund is therefore paying its investors a less than the commercial return normally expected in investments of this type that bear a significant risk in the financing of speculative housing development.

The creation of a due diligence file was similar to writing a dissertation, each statement of fact had to be backed up with primary evidence. As a result, the normal marketing spin and amiability had to be excluded and simple statements of fact about past performance and future work had to be the main ways of persuading people of the suitability of the fund for investment. Having drafted the prospectus it was reviewed by the company secretary of Wessex and some statements amended or new evidence found and added to the file. The Directors then met and reviewed the final draft of the prospectus and checked that the due diligence file had all the evidence required. They then signed off the document and sent it for design and print. To keep costs down the design was one which allowed printing in the office rather than printing hundreds of documents which may have ended up not being used.

The assessment of the prospectus by the Wessex solicitor produced helpful guidance for the Directors on how they should conduct the share offering including the form of any promotional material. This was followed in the production of articles and e-mail alerts.

The fund was launched on 1 May 2007 with a target of securing up to £1,500,000 of new investment. It was promoted in a variety of ways including an e-mail alert to a list of approximately 1,000 key contacts held by Ecos, press coverage was achieved in the Western Morning News Business section and other local papers, direct mail to over 50 contacts, promotion in the Ecos Trust newsletter with a circulation of 3,000, and promotion at talks including the Ethical Investment Association.

By August 2007 £150,000 of investment was raised from new members of the fund. In addition Rathbones Greenbank, an ethical stockbroker based in Bristol, assessed the Fund with a view to making investments on behalf of investors that it represents. The directors were keen to accept investments via this route, however this required a change to the rules of the fund that had to be submitted to the FSA for approval. The rule change was eventually achieved with the assistance of the Wessex group and allowed institutional investment on behalf of individual investors known as nominee accounts. This was achieved without compromising the fund’s democratic principles.

As a result £499,000 was invested by the Rathbones on behalf of nominees. By the end of 2007 Ecos Fund had £650,000 under management which, in addition to the existing investors in Ecos Homes, has created £1,300,000 to invest alongside funds from the Ecology Building Society in a programme of new sustainable house building in Somerset and Dorset.



5.4 Local Food Links

Local Food Links (LFL) was set up by West Dorset Food and Land Trust in 1999 with the overarching aim of making good food affordable and accessible in West Dorset. At the beginning of 2007, informed by the exciting prospect of a new financial mechanism to raise share capital from the community, LFL, with the support of West Dorset Food and Land Trust, agreed to participate in the pilot action research project initiated by Wessex Reinvestment Trust to find new ways of raising local investment in social companies. This entailed LFL restructuring as an IPS ‘community benefit society’ using the Wessex model rules. On 23 January 2007 Local Food Links Limited was registered with the Financial Services Authority.

At the time LFL restructured, their products and services were:

- A Local Food Club enabling members to gain the benefits of bulk purchasing local, organic and fair trade produce;
- A hot school meals service for eight local primary schools in West Dorset.

LFL wished to allow the community it worked with to become members in the organisation, contribute financially to the growth of it, and experience ownership of a community based asset. In particular LFL was seeking investments through the Financial Mechanisms Project for working capital (to bridge the time gap between payment of costs such as ingredients, staff and fuel, and the receipt of sales income), catering equipment, and implementing energy efficiency measures. It was intended that depreciation would allow eventual withdrawal of members’ shares.

LFL adopted the ‘Enterprise Investment’ model rules which, with HMRC approval, allows investors in eligible

organisations to claim 20 % of the amount invested as tax relief off their end of year tax bill. Even though LFL were offering no interest on shares purchased it was hoped that the tax relief would compensate for this. One condition of this was that investors leave their investment in LFL for five years (following recent research proving HMRC acceptance, other organisations have set the minimum term of investment at three years).

Once LFL had obtained this assurance for their investors they worked on the creation of a prospectus for a share offering. Because of the nature of the Wessex Model Rules, LFL was able to show 'due diligence' internally. This meant that the prospectus had to be drawn up very carefully, keeping in mind the need to provide evidence that each statement made was "true and fair". The due diligence file was created accordingly, signed off by the Board of Directors, and kept available for inspection as the rules require.

The two-fold aim of the share issue - building community involvement and raising capital funds - was problematic, as the £100 minimum share purchase required by the prospectus (£500 for EIS relief) precluded many of the LFL stakeholders from participating. As a result, LFL decided to create a membership share of £1, but use £100 as the minimum investment required to tie the shares to the terms of the prospectus.

The prospectus was professionally designed and included pictures from the work of LFL. Marketing activity was undertaken within the following groups:

- The families of children at the primary schools LFL serves;
- Stakeholders in the local food scene in West Dorset;
- Trusts and Foundations (nationally, with an interest in local food);
- Businesses throughout the South West (via Chambers of Commerce).

All applications for membership were held until a meeting of the board accepted the members. At that point share certificates were distributed and members' names were entered into the register of members. Ongoing efforts at PR activity achieved some notable successes, including an article in the Guardian newspaper on the work of the organisation, and the winning of a community award from the Marshwood Vale Magazine.

By the end of the share offer period £1640 had been raised. This was less than anticipated, and may reflect the high risk a service-based social enterprise carries. If so, it may be more appropriate to use this type of share issue on an occasional basis to raise funds for specific capital needs of the company. It was also noted that the staff and directors of LFL had insufficient time to devote to promoting the share issue, as the organisation is in a phase of extremely rapid growth and expansion.

The Board reflected and opted to re-open the share issue for a further six months, this time looking at marketing the product in different ways.



5.5 High Street Organics

This community co-op based in Bruton, Somerset provides organic fresh foods and wholefoods from local producers and co-operatives. It has evolved from a voluntary run shop open for half the week to one which is now open six days per week and providing part-time employment to six staff. During 2006 the co-op had the opportunity to either purchase its premise or renegotiate a business lease to create a secure future. As a result it decided that it needed to be in a position to be able to raise capital to purchase its premise. As the business grew it also had begun to suffer from a lack of capital to invest in shop fittings and expand its range of stock. Some members had given loans at critical times and it was hoped that in future loans could be replaced by shares.

The co-op was already an existing IPS for Benefit of the Community using model rules from ICOM (now Co-ops UK). The Wessex new model rules were reviewed and the advantages and disadvantages assessed. The two principle advantages were that the new rules would allow a public share offering if capital were to be raised for purchase of the premises and secondly, any investment over £500 would attract EIS tax relief making investment more attractive. The main objections to the rules were the potential of new investors from outside the community being able to invest and possibly control the management of the shop.

Changes to the model rules were incorporated, including reducing the time for EIS compliant investment from 5 to 3 years and adding a clause to exempt the IPS from a full audit when it has a small turnover.

The rule changes were made and the new committee of directors elected in the summer of 2007. The shop is still at a stage where it is making a small loss and so not yet in a strong enough financial position to be able to make a public share offering. However some supporters of the shop that have loaned funds to it are considering purchasing shares and taking advantage of the EIS tax relief before the end of the 2007/08 tax year.



6 Lessons from Pilots

6.1 Using the Model Rules

Both sets of model rules were used and registered with a small number of amendments. The process of agreeing the rules was guided by a pack produced by the Wessex company secretary, the founding directors had to first meet, discuss the draft rules, and agree any amendments and additions. In several cases there was a desire to include much more specific objectives in the rules than the general ones in the model, this was overcome by including the specifics as an example of how the objectives are applied and so ensure that the rules are prepared without major amendments. Having agreed the rules with amendments, Wessex prepared the rules which were sent to the founding directors for adoption and signing. Other matters that need to be resolved at the first meeting of the board of directors of the IPS were also covered including appointment of an auditor, agreeing the year end and setting up of a bank account.

In the case of Local Food Links, which was a company limited by guarantee, it was a simple process of transition to an IPS (the Wessex group undertook the registration process for Local Food Links Ltd. with the FSA as sponsoring body) and adopting the model rules with amendments as the new governing document.

Subsequently Wessex have sponsored the adoption of the model rules by a range of new projects and in many cases have been able to secure approval in under a month. Two significant changes to the original model rules have also been agreed with the FSA, these are:

- Inclusion of a three year minimum investment period for the enterprise model rules rather than five. This being the minimum period for investments to attract Enterprise Investment Tax Relief.
- Inclusion of a clause to accept investment by a limited number of nominee shareholder accounts thereby enabling investment on behalf of investors by firms of stockbrokers.

Experience from the pilots is that most of the founding directors and potential users of the model rules have never come across an IPS and are far more familiar with company structures. This does lead to a lot of questioning of the legal form early on, and concern because of unfamiliarity with the form – such as having non transferable shares. Compared to the promotion of Community Interest Companies (CICs) there is a very low level of awareness of IPSs and the benefits of the structure. There seems to be a good case for a more general promotion of IPSs, for example by organisations who work on IPS policy, which could take place at the same time as a reform of the law that has been announced.

In summary:

- Stick to the model rules for simplicity of start-up. More specific objectives can be referred to by giving examples of how the general objectives might be achieved.
- Conversion from a company limited by guarantee to an IPS is straightforward.
- Most potential users of the model rules are very unfamiliar with the IPS structure and there is a role for further promotional work around the IPS concept by IPS advocacy organisations.

6.2 Writing Prospectuses

The three original prospectuses produced were for Wessex Community Assets Ltd., Ecos Fund Ltd. and Local Food Links Ltd.. In writing the prospectuses, the directors of the pilot IPSs needed to consider the internal due diligence that had to take place in order to launch the share issue. This meant that directors had to be sure that they could evidence all statements made.

The importance of having available time from steering group (or board of management) members to agree on the wording of the prospectus, and to have a well thought out process for doing this, is illustrated by the problems Wessex Community Assets faced in drafting their prospectus. The process of agreeing the prospectus wording was not always very clear with further comments received even after the prospectus had been agreed at a steering group. It was clear in retrospect that key issues around the returns offered, target sum, minimum sum and closing date should have been settled first with the detailed drafting coming later. Instead the drafting was done and these key issues were only considered later. In future a 2 stage process of agreeing the prospectus would be better:

1. The steering group to consider the return to be offered, sum to be raised, minimum shareholding, closing date (if any), and principles of the offer.
2. Then detailed drafting around these principles.

The input of the steering group is vital to the success of this part of the project. Time must be made to decide these key issues before other work can commence. It is also advisable for the steering group to make time available to complete the due diligence together as a group. This is important in terms of

ensuring that the prospectus is compliant with all regulatory and legislative requirements. As part of the due diligence a solicitor must issue a statement of compliance to inform members that the prospectus complies with the Financial Services and Markets Act (2000) and any voluntary code of conduct the organisation subscribes to (Malcolm Niekirk, now of Coffin Mew solicitors, provided this service for the pilot projects). All prospectuses issued as part of the pilot were deemed compliant, but it should be noted that careful drafting of the prospectus to ensure that all statements are true, fair and can be evidenced, will avoid unnecessary time delays and expense at a later date.

In summary:

- Prospectuses should not be written before a viable business plan is in place. This will ensure that the organisations' overall objectives are clear and supported by a financial planning framework and financial projections. This will avoid the inappropriate sequencing experienced in, for example, the drafting of the WCA prospectus where the key issues such as the fund-raising target, interest rate and closing date were considered only after the prospectus was drafted.
- Due diligence should be addressed during, not after, drafting to save time. It should also involve all steering group members.

6.3 Issuing

Prospectuses were issued on request and also via direct mailings with covering letters to those perceived to be stakeholders in the objectives of the particular IPS. Local Food Links targeted local individuals who had expressed an interest in work done by the organisation in the past, parents and guardians of primary school age children who were benefiting from healthy school dinners, and Charitable Trusts and Foundations who might wish to consider an investment or loan as a modern alternative to a grant (programme related investment). It also took the opportunity to hand out prospectuses at local events.

With Wessex Community Assets it was difficult to find a segment of the market ready to invest in the IPS, this would have been simpler if there had been a CLT requiring finance which would be ready to go once they obtained funds through WCA with no alternative options. The local community to this CLT would have been incentivised to invest. WCA could assure no investor that their money would directly be invested into a particular CLT (e.g. one local to them) which removes the urgency to invest from a key market. The nature of the WCA fund meant that in no circumstances could an investor be sure that their investment would be in a particular CLT anyway (as CLTs would receive loans only as part of an independent application process), however if there was a CLT waiting for the loan it still would have been more of an incentive for local people to invest. The prospectus was issued speculatively to other segments of the market, Charitable Trusts and Foundations, housing associations, local contacts made (e.g. attendees of a conference on alternative economics held by the Diocese of Exeter), and local businesses. This reaped very little return and suggests a targeted marketing strategy needs to be developed with work done also to prepare this market. One consideration is that the nature of CLT schemes, where planning causes such uncertainty about timing, makes them unsuitable for an IPS issue unless used for a specific scheme that local people can then get behind.

The delays in the issuing and sticking to the timetable for opening and closing indicates a lack of familiarity and capacity with the process of share offerings. With hindsight it would have been important to get agreement with the IPSs on how the Wessex group would work with them and agree a timetable that is adhered to for launch, PR and marketing.

6.4 Marketing

All three prospectuses were designed using the same design template, this was done to indicate that they were from the same stable and also to reduce costs. They were also designed in a way which made it easy to promote on the web and to be e-mailed to potential investors.



The strategy that was followed by all the offerings was to combine wide publicity in local, regional and national media with targeted direct mail to potential investors and investment advisors. The publicity in the media started with the underlying story of the New Financial Mechanisms project being a national ground breaking project and the philosophy of slow money being the underlying message. This was followed up with targeted press in local media where CLTs were being promoted as well as the Local Food Links project in Bridport.

The coverage achieved was good, with a broad range of local, regional and national media covering the story and giving rise to direct investment in Ecos Fund. However, the direct marketing that coincided with this coverage failed to produce the level of investment that had been expected. In several cases it was difficult to get the punch-line in that this was a way of investing in a local project and that people interested should contact The Wessex group.

None of the pilots had a professional marketing department and they were all unfamiliar with - and probably uncomfortable with - seeking investment from prospective investors. For example, all undertook direct mailings but there was little follow up by phone, letter or e-mail as the deadline for investment approached.

The marketing to individuals and institutions was the same when foundations need a very different offering if they are to consider programme related investment.

For individual investors the marketing materials that were produced were also probably too complex, the message around Wessex Community Assets contains several new and unfamiliar concepts to address the affordable housing crisis.

This can be compared with the Energy for All (an organisation specialising in facilitating community owned energy) offerings where the offering already addresses something in the public consciousness and the potential for it to earn money and repay a loan is easy to understand. In comparison the CLT model is untested and its ability to repay a loan is yet to be generally proven in the UK.

None of the pilots adopted a particularly sophisticated approach to marketing, relying on low cost PR marketing and direct mail (both e-mail and post). There seems to be more that could have been done to refine this approach, with more follow up, and also greater targeting of particular groups of possible investors. It may be that in some cases a well known personality locally could be asked to make public their investment and so help others overcome their initial hesitation about investing.

What is clear from the pilots is that a better understanding of the different groups of investors is needed.

In summary (for 6.3 and 6.4)

- The lesson of the WCA prospectus is that since the aims are broad, interest among potential investors could be improved by having a specific first project that is awaiting finance. Also specific first projects awaiting finance would stimulate interest among investors local to those projects.
- Marketing plans need to be project specific. A clear idea of where the target amount to be raised might come from needs to be arrived at before any promotional activity.
- The absence of marketing professionals meant that there were direct mailings but no personal follow-up.
- Marketing to institutions needs to be distinct from marketing to individuals.
- Publicise investment by well known personalities.

6.5 The Investors

One reason to seek investors is to widen the basis of ownership and involvement, and that is certainly the approach adopted by Local Food Links Ltd. At the other end of the spectrum Ecos Fund Ltd. has been created especially to create a vehicle for investing in Ecos Homes.

The groups of potential investors from the three pilot investments can be grouped as follows:

- Individual investors with an existing commitment to the project - such as members of Ecos or parents involved in Local Food Links school food scheme
- Past investors (such as Ecos Homes investors)
- Wealthy individuals with a connection to the area
- Local charitable foundations and church investment groups
- Charitable foundations with objects which align with the investment proposal
- Other social enterprises such as Housing Associations

It has become clear that each of these groups needs a different approach and in some cases their support used to elicit investment from others.

For example, in the case of Local Food Links Ltd. the parents of the children that are participating in the local school food scheme are likely to have less free cash than the grand parents and so a way of involving them in investing might have been more successful. In addition, the people that shop at the Farmers' Market are likely to understand and believe in the mission of Local Food Links and may have more disposable income to invest in the project.

Institutional investors are more used to receiving and dealing with grant requests and so may find the concept of investment difficult to handle, where they have been open to this in the case of WCA they have sought detailed business plans for the organisation and the way in which it will handle the funds.

Experience from other funds indicates that many of the investors in one ethical investment offering will invest in future offerings, indicating that looking after investors and being able to offer them future investment opportunities is an important way in which social enterprises can build up their investment funds.

In summary:

- Looking after investors may produce investment in other linked future projects.
- Institutional investors who normally process grant requests may have difficulty with the concept of programme related investments. Further information including business plans may be required.
- Imaginative identification of potential investors is needed. For example, with Local Food Links it was realized that grandparents of school children may have been as interested as the parents in the concept while having more disposable cash.

6.6 Funds Raised

- Local Food Links Ltd raised £1640. As Local Food Links has opted to re-open its share offer until the end of May, funds are still being raised and it is hoped that a new marketing strategy, and implementing the learning of this report, will assist Local Food Links to raise more investment funds through this vehicle.
- Wessex Community Assets Ltd raised £9,200 from private investors. This amount is too limited to be usable for lending to CLTs. The board of WCA is also planning to extend its share offer to accommodate ongoing interest in the fund and, as with Local Food Links, to incorporate the learning from this report to make renewed efforts at raising the funds required to on-lend to CLTs. Interest has been expressed by a number of parties (including an intermediary specialising in Ethical Investment) in investing in the future, but that releasing funds from other locations and the time taken to complete the practicalities of the application form has delayed investment to date. The board of WCA intends to invite the current members to a meeting to discuss investing and try to gather some learning as to how to widen the market and 'recruit' more members.
- Ecos Fund Ltd raised upwards of £630,000, two thirds of which came via intermediary sources (e.g. Independent Financial Advisors who are members of the Ethical Investment Association and Rathbones Greenbank stockbroker).
- High Street Organics Community Co-op Ltd has not yet launched a prospectus and so has raised no funds to date.



7 Success with Local Investment

The experience during 2007 combined with the market research in 2006 and the experience of other investment raising initiatives such as Fair Finance and Fordhall Farm (a community owned farm in Shropshire) have begun to create a picture of what works and what doesn't work when it comes to Local Investment. The summary below has identified six factors which affect the success or failure of a local investment initiative and which any project needs to consider carefully before and during the share offering.

7.1 Track Record

Where we are seeking investment in a project or enterprise there has to be some prospect of offering a return on the investment. In order for an investor to feel confident about the enterprise some kind of track record of success is helpful. So, for example, both Local Food Links and Ecos had a track record of trading over several years. They were able to build up this record through past investments, in one case through grant aid and one through loans from a small number of key supporters. By contrast Wessex Community Assets had no track record of lending and only one Community Land Trust in the region has started operating.

7.2 Clarity of Offer

The offering that is being made has to be easily understood by a large number of people and has to be capable of being communicated in a very short form which grabs people's attention. Often the clarity comes from a general understanding of the solution that is being offered. So, for example, activities such as buying an organic farm, putting up a wind turbine or building an eco-home have been debated and highlighted by the media for many years. People know these are positive solutions and it is easy to understand how they can generate a profit. Both the WCA and Local Food Links offerings were highly technical and had the potential to confuse with excessive detail.

7.3 Blend of Value

The market research and the experience of the pilots shows that making explicit the social and environmental return, as well as financial return, is very important. However, presenting this mix or blend of value in an easily understandable - and preferably quantifiable - way is more difficult. All the pilot offerings had simple measures of social return which were presented in various ways. However, to strengthen the offering it would have been better to include some clear, objective measures of social and environmental return. This is probably more important for attracting investment from institutions and via professional financial advisors.

7.4 Financial Return

All the examples cited in this report talk about investments and that makes people think of a financial return. The return doesn't have to be enormous and probably most ethical investors would consider a high return on an ethical investment unlikely and possibly compromised in some way. However, a zero rate of return for a risky investment is likely to fail and will be a lot less attractive than a higher return for a similarly risky venture. So the risks associated with the Ecos Fund offering are counter balanced by an investment return which is above the normal savings rate. Being able to mix a tax benefit with a lower financial return is another way of adding to the return to the individual investor(s).

7.5 The Community of Investors - the Mix of Investors - Individuals and Institutions

It is clear that the promotion of offerings to different potential investors is essential and that, before starting, a clarity about the target audience is essential. In many cases the pilots had quite a vague idea of who may or may not invest and what different information institutions and individuals may require. Being able to identify the groups of people to target in different ways, but with the same offer document, has proved to be difficult and it may be that as projects become more experienced they begin to produce separately approved documents for different audiences. For example, one offer document for institutions seeking a long-term loan and one for small investors able to invest a few hundred pounds.

7.6 Effective Marketing

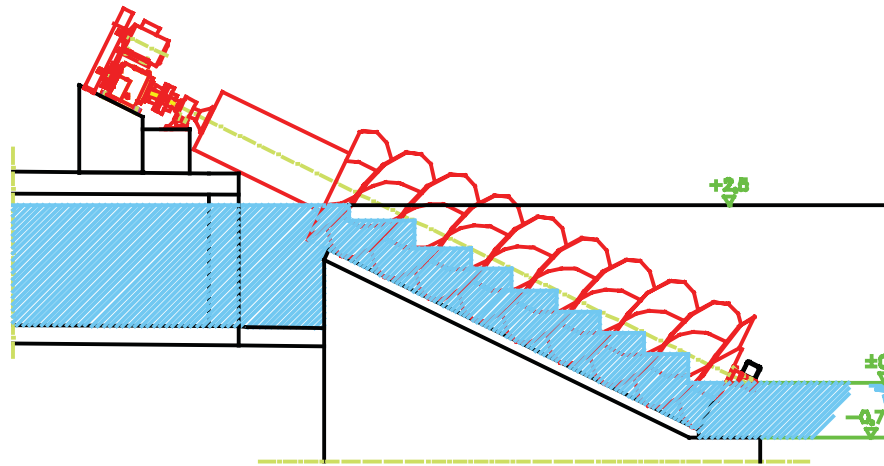
Marketing begins when the offer document has been printed and is ready to be distributed. For all the pilots it seemed that the effort of registration, writing the share offering, preparing the due diligence file, and agreeing the design and layout was time consuming enough. Completing the job by posting the offer out to a couple of hundred contacts seemed quite enough, but as can be seen from the returns far more was needed. A thorough marketing plan which uses the right media to communicate and engage investors is essential. The connection between the organisation and the investors is strongest where it is personal and has an emotional resonance - one can see how the Fordhall Farm experience achieved this by communicating a personal human story. The success of Ecos Fund was achieved in part by the links that the staff and directors had with a large number of supporters that had built up a rapport over several years.

To create a successful local investment offering each of these six factors has to be addressed. Clearly the ideal offering is easy to imagine but a lot harder to produce in practice - the local organic food business with five years profitable trading which sells exclusively to people in a deprived inner city area and able to offer EIS tax relief, a 4 % annual return and owns its own premises, all wrapped up in a glossy share offering that is endorsed by a local celebrity. If only it was that simple. The reality is that any offering has to be an honest compromise which has a mix of benefits and is delivered as effectively as possible using the resources available.



7.7. Case Study: Water Power Enterprises (h2oPE) and Torrs Hydro New Mills Ltd

There is an untapped potential for hydroelectricity that exists almost in every river in this country which is being overlooked by most. That untapped potential drove the early stages of the industrial revolution and the infrastructure is still there. River weirs were constructed by their thousands and generated mechanical power for the industrial revolution. Water Power Enterprises (h2oPE) has developed a social business to re-use those river weirs for their original intention, namely the generation of green electrical power.



h2oPE intend to develop these 'low head' hydro sites using the Archimedean screw. The water will run from above the weir, down the screw and turning it, returning to the river just below the weir. The turning motion of the Archimedean screw generates electricity which can then be sold through the national grid. The technology is simple and is proven to work. h2oPE is in a position to produce renewable energy at no cost to the future of the planet. By this means h2oPE aim to save approx 8,500 tonnes of carbon emissions per year by installing around 5MW of renewable energy by 2015. This is the equivalent of saving 24 million car miles per year and supplying upwards of 10,000 homes.

Torrs Hydro New Mills Ltd and h2oPE

h2oPE's approach is to develop partnerships with local communities near river weirs. Their aim to remove the two usual barriers preventing such schemes going ahead:

- To provide the finance to develop sites, whilst offering the local community an opportunity to get involved in their local scheme, and directly benefit from it;
- To provide the capacity to develop hydro power schemes by taking each site through to investment readiness, raising finance and by installing and maintaining each site.

During h2oPE's community consultation for a project in New Mills, Derbyshire, members of the local Friends of the Earth approached them with a wish to become involved more integrally with the scheme and specifically to contribute financially to the project.

After evaluating various options, h2oPE discovered the pilot work that the Wessex group were doing on developing Financial Mechanisms for Social Investment and realised that this was their preferred solution.

Working with Wessex Reinvestment Trust

Because the project already had a build schedule, h2oPE needed to progress the development of the IPS and its Share Offering very swiftly. The Wessex group made this possible by the clear processes and well developed guidelines, and prompt response mechanisms that they had put in place to help other groups go down this route.

From h2oPE's first approach to the Wessex group in July 2007, the IPS – Torrs Hydro New Mills Ltd - was incorporated early September 07, the share prospectus launched on 23 November and closed, successfully on 31 Jan 2008.

H2oPE and Torrs Hydro New Mills Ltd found putting together the prospectus and doing the associated due diligence straightforward (although they did have previous experience in their team of similar work).

The results underline the success this financial mechanism can bring. The share offering raised over £97,000 from 200 people, over half from the local area.

A key part to the success was employing a professional marketing and PR consultant, who worked with

h2oPE and Torrs Hydro New Mills Ltd from launch, through direct contact to potential investors, and a final information day that secured £10,000 on its own. PR and marketing activities that h2oPE and Torrs Hydro New Mills Ltd carried out were:

- A press pack;
- Press events - an open day/press launch;
- Giving interview tips;
- A guide to difficult questions and answers;
- Ongoing promotion – establishing a press database and a database of interested parties;
- Developing national PR led marketing campaign;
- Promotion of prospectus.

Tips on launching a community share issue from h2oPE

- The prospectus is your selling document, for inspiration think of very clear corporate brochure. If people don't understand it then they won't follow up with queries. Ask two or three people (who might fit into your target investor profile) who have nothing to do with project to look over the document. They will tell you what's not clear and what needs improving;
- To complete the due diligence process a clear understanding is needed of what due diligence is and why you are doing it. h2oPE and Torrs Hydro New Mills Ltd created a due diligence list, referencing all the documents where the data and information in the prospectus had come from and double checked that the prospectus was a fair reflection of fact. The main skill needed for this is common sense;
- Look closely at the examples from the Wessex group, and gain an understanding of what is must be included in your rules and prospectus (as required by the Financial Services Authority) and what you are free to add to help to sell the idea to the investor;
- Look at the more successful community share issues, such as Ecos Fund Ltd which had a very clear message;
- Marketing should be considered at the very beginning when the original Directors are proposed. Their skills should be identified and also what commitments they can make. Try to get a feel for their marketing experience and let them know the types of activity they might want to consider from looking at the experience of other community share issues;
- Try to plan a schedule of events (i.e. an initial introduction to the project; an open day; a share offer launch evening; site tours; final exhibition). Other activities - like presentations to local councils, business forum, school governors - can be slotted in;
- Consider template designs for posters and leaflets. There may be some graphic talent within the interested parties;
- Local Marketing: Identify where posters and leaflets can go and earmark people for distribution. Identify the local newspapers and free sheets – ask amongst the team if anyone locally knows the Editor, local journalists and if they can be met early on? Compile local press cuttings. Identify local deadlines.
- Promotion of prospectus - from interested person to cash! The key thing here is to keep a database of interested people from the very first public meeting and keep encouraging them to sign up all the way to the prospectus deadline - look after them! One tip learned from Energy 4 All (from their successful community share issues for wind energy projects) is to keep messages simple and repeat them.



8 Conclusions and Next Steps

The next stage of the project will build on the success of creating a new set of IPS model rules which have enabled low cost public share issues for social enterprises.

There are three parts to the next stage each of which are a response to the lessons of phase one:

8.1 Refine the IPS model rules and promote the general use of IPSs

1. Create a new set of IPS Co-op model rules which enable low cost compliance with financial promotions regulations. This provides a route for enterprises able to offer market returns to investors and so can not be treated as purely community benefit entities. Wind energy and other renewable energy projects could benefit from this.
2. The IPS and Mutual legislation is being reviewed by the Treasury in 2008 and it is important that Wessex is able to contribute fully to this reform to ensure that it takes into account the new thinking that we have developed.
3. In collaboration with Co-ops UK and others we need to promote a much wider understanding and appreciation of the IPS legal form as a way of enabling new social enterprise.

8.2 Create a market for investment in social enterprises of the type promoted in the phase 1 pilot

1. The creation of a market place for investment in social enterprises is needed if the full range of institutions including charities, stockbrokers and pension funds are to become fully engaged in the sector. Links with Investing for Good, Social Stock Exchange and others need to be exploited in order to grow the sector.
2. Using the Wessex Community Assets and Wessex Reinvestment Society IPSs a pilot of a regional investment fund needs to be created to make investments in property and enterprise projects and act as an assured conduit for national and regional institutional funds.

8.3 Apply the thinking developed in the pilot phase to other legal forms to reduce the costs of raising ethical investment

1. Reducing the cost of compliance with financial promotions regulations could be applied to other legal forms. In particular there are three areas that are worthy of further research:
 - a. Real Estate Investment Trusts (REIT) as a way of raising investment in CLTs.
 - b. Model CIC rules which require less costly due diligence processes to comply with financial promotions regulations.
 - c. A standardised due diligence process to apply to a public share offering of a share company.

9 Bibliography

For further reading:

- Community Share and Bond Issues: The sharpest tool in the box (Chris Hill, 2007) - A report commissioned by the Development Trusts Association and the Adventure Capital Fund
<http://www.dta.org.uk/resources/publications/communityshares.htm>
- Equity Finance for Social Enterprises (Jim Brown, Baker Brown Associates, March 2006)
<http://www.bakerbrown.co.uk/index/files/Page1206.htm>
- Common Ground - For Mutual Home Ownership: Community land trusts and shared equity co-operatives to secure permanently affordable homes for key workers (Pat Conaty, Johnston Birchall, Steve Bendle and Rosemary Foggitt, October 2003) - A report published by the New Economics Foundation and CDS Co-operatives
<http://www.neweconomics.org/gen/z/sys/PublicationDetail.aspx?PID=164>
- Community Land Trusts - A Practitioners Guide (Community Finance Solutions, April 2007)
<http://www.communitylandtrust.org.uk/index.php?option=com/content&task=blogcategory&id=31&Itemid=55>
- Foundations and Social Investment (Margaret Bolton, October 2005) - A report commissioned by the Esmée Fairbairn Foundation
<http://www.esmeefairbairn.org.uk/grants/reports.html#Foundations/social>

Appendix 1: Wessex Reinvestment Trust Exploratory Market Research

Investing in Local Communities: Characteristics and Needs of Potential Investors

Context

This research was carried out as part of an ongoing investigation into financial mechanisms for increasing investment in community initiatives and social ventures.

This section of the work was designed to build a picture of the characteristics and needs of potential investors. This, together with a developed knowledge of the existing supply of investment, will help in the formulation of financial mechanisms that are both effective for those trying to raise investment and attractive to those looking to invest.

Method

A structured questionnaire, designed to determine people's investment criteria and needs, was sent to members of both Ecos Trust (Somerset Trust for Sustainable Development as was) and Lyme Regis Development Trust. Both of these Trusts are concerned with community regeneration and therefore it was thought some of their members might have an active interest in the research. This was found to be correct as the survey generated 61 returns from interested parties.

Respondents were first asked about their priorities when considering an investment, the types of venture they would consider investing in, what their current financial practices are and the finances they have, either available for investing or already invested. The section was headed Investments and money.

The following two sections of the questionnaire presented respondents with a basic outline of a hypothetical investment opportunity. Respondents were asked how important they deemed different features of the opportunity, from an investment perspective, and then how strongly they agreed with statements relating to the proposals.

Scenarios

The hypothetical investment opportunities used in the questionnaire are outlined below to enable a better understanding of the results presented.

Scenario 1

- Retail shop selling exclusively organic, fair trade and local produce (in particular vegetables, whole foods and dry goods, cleaning products, bread, dairy and skincare products).
- Serves a small town in Somerset and surrounding villages. Has a loyal and growing customer base and is supplied by 6 local farms.
- Needs investment of approximately £15,000 to expand the business as a result of a new three-year lease currently being negotiated.
- Will be able to offer investors a small return on investment of 4 % to 5 % per year after the first three years. May be possible to offer higher rate taxpayers tax relief via the Enterprise Investment Scheme.

Scenario 2

- Community Development Trust in ownership of a large building rented out to a variety of projects and businesses, some of which pay a commercial rent and some of which are subsidised. The Trust runs many local projects including a community cafe, education projects and a local cultural festival.
- The property was recently purchased from the local council. The trust is now looking to raise finance both to replace a short-term loan, taken out to purchase the building, and to invest in a refurbishment and an extension of the building.
- Seeking £130,000 of investment. Investors will receive a 3 % to 5 % annual return, with the capital being returned at five years and ten years.

Results

Investments and money

Figure 1 shows that security on investment is of fairly high importance or above for the majority of respondents, with very few respondents regarding it as only slightly important and none disregarding it altogether. It can be seen that environmental benefit and benefit to the local community, are the criteria most often considered very important by respondents. Financial return on investment is the criteria the most number of respondents deemed only slightly important. However, figure 1 demonstrates that all the criteria are important to at least 80 % of respondents.

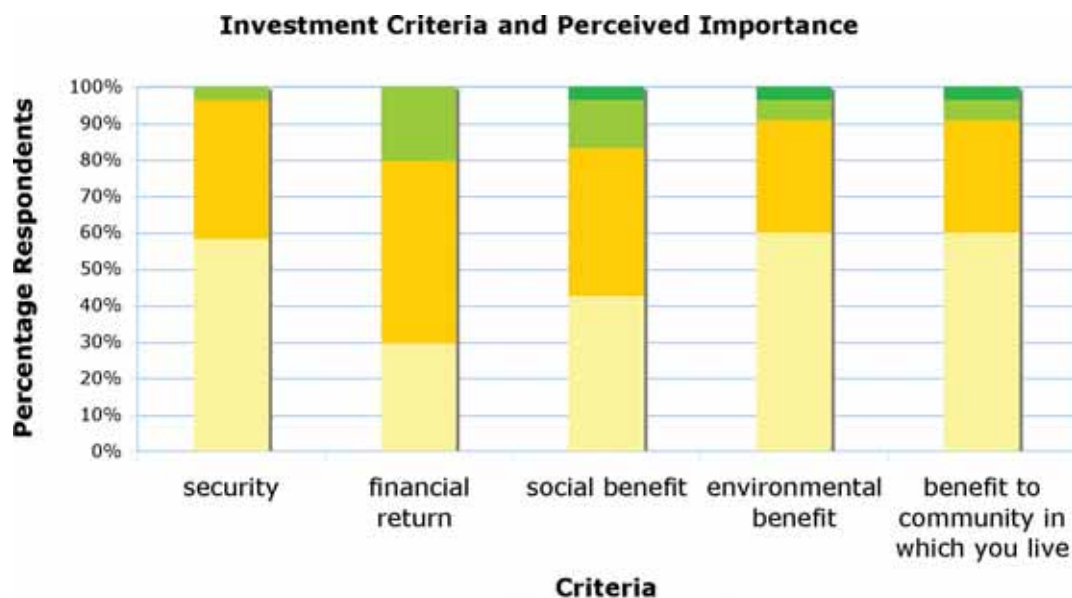
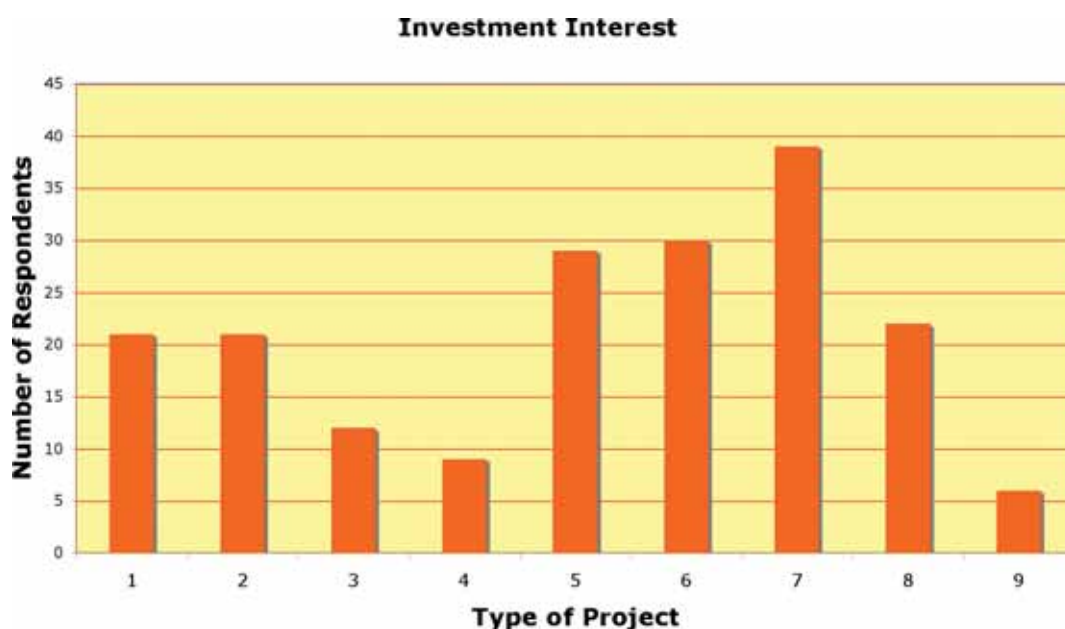


Figure 1. Graph to show the importance respondents placed on different investment criteria



- 1 = local shops
- 2 = local business
- 3 = businesses in your county
- 4 = businesses in your region
- 5 = community owned farm
- 6 = affordable housing
- 7 = sustainable housing
- 8 = community regeneration project
- 9 = home improvements for elderly home owners

Figure 2. A graph to show the number of respondents that would be interested in investing in different types of project

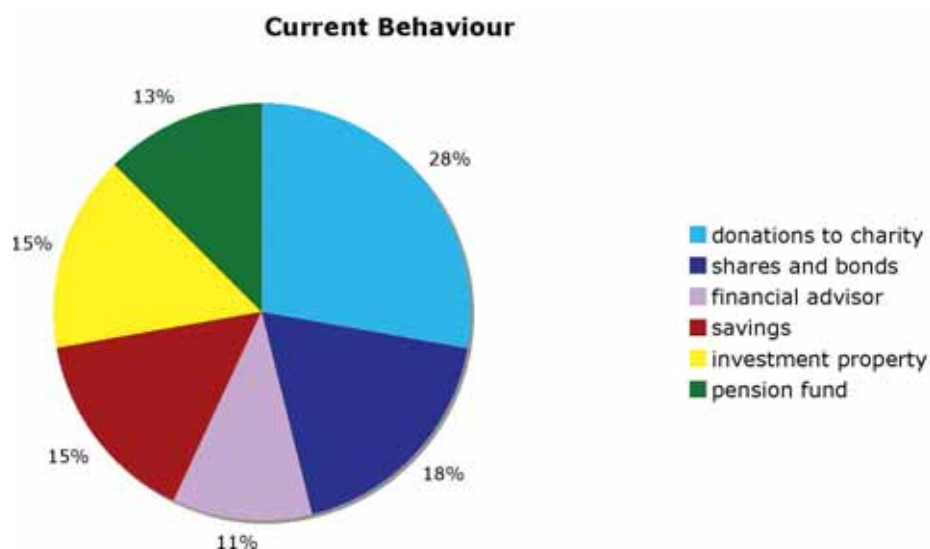


Figure 3. A pie chart to show the current financial behaviour patterns of respondents

Figure 2 shows that, of the options presented to respondents, investment in sustainable housing has generated the most interest. This is likely to be due to the fact that the Ecos Trust, to whom the majority of respondents belong and were identified through, specialises in the construction of sustainable homes.

It should be noted however that, aside from sustainable homes, none of the options presented generated greater than 50 % interest from respondents. There is no way of knowing if this low interest is a reflection of

the options presented or if it is simply that a lot of the respondents are not currently in a position to invest in anything, and therefore felt unable to answer the question.

Figure 3 shows that respondents have fairly evenly adopted a range of financial behaviours, with regular donation to a charity being the most common behaviour and using the services of a financial advisor being the least.



Figure 4. A pie chart to show the finances respondents have both available for investment and already invested

It can be seen from figure 4 that the majority of respondents have sums in the higher end of the options presented (50,000 to 250,000 or more) either available for investment or already invested.

Scenario 1

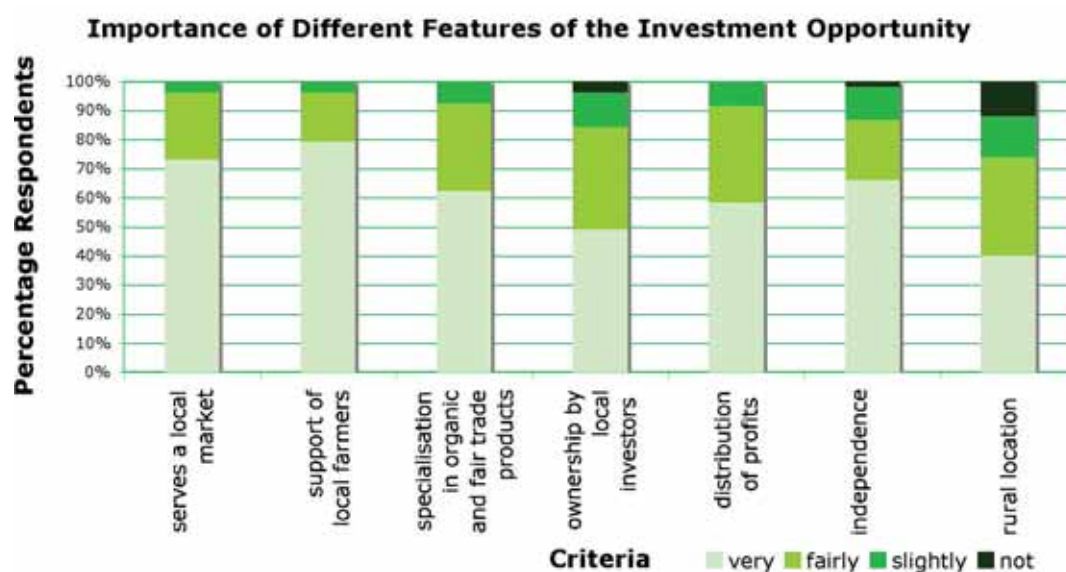


Figure 5. A graph to show the perceived importance of different features of the investment opportunity presented in scenario 1

Figure 5 shows the respondents regarded the support of local farmers by the investment opportunity as important, with nearly 80 % of them saying it is very important. Only two statements had less than 50 % of respondents saying it was very important, these were: ownership by local investors and the rural location.

Most of the respondents agreed or strongly agreed with most of the statements presented to them. Only 3 statements generated a higher than 50 % disagreement rate, these were 1, 3 and 7:

- The return on investment is too low to interest me;
- I would only invest if I live in the same town;
- I would only invest if the business could offer much higher returns on my investment

This backs up the finding in the investment and money section, that in financial return is perhaps less important to investors than other criteria. However, it contradicts the findings in the investment and money section by suggesting that proximity to the investor of the investment opportunity is highly important. This suggests 'local' could in fact just mean in the same county or region.

Statements 8 and 9 both had over 80 % of respondents agreeing with them. These were:

- I would like to see some proof that the business is supporting the local community
- I would be happy to keep my investment in for more than three years

This suggests supporting evidence to claims of benefits derived is important to investors, probably giving them greater confidence in the investment. It also suggests that if the investment is sound people are happy to commit their finances to it for the reasonably long term.

Agreement on Statements Regarding Investment Opportunity

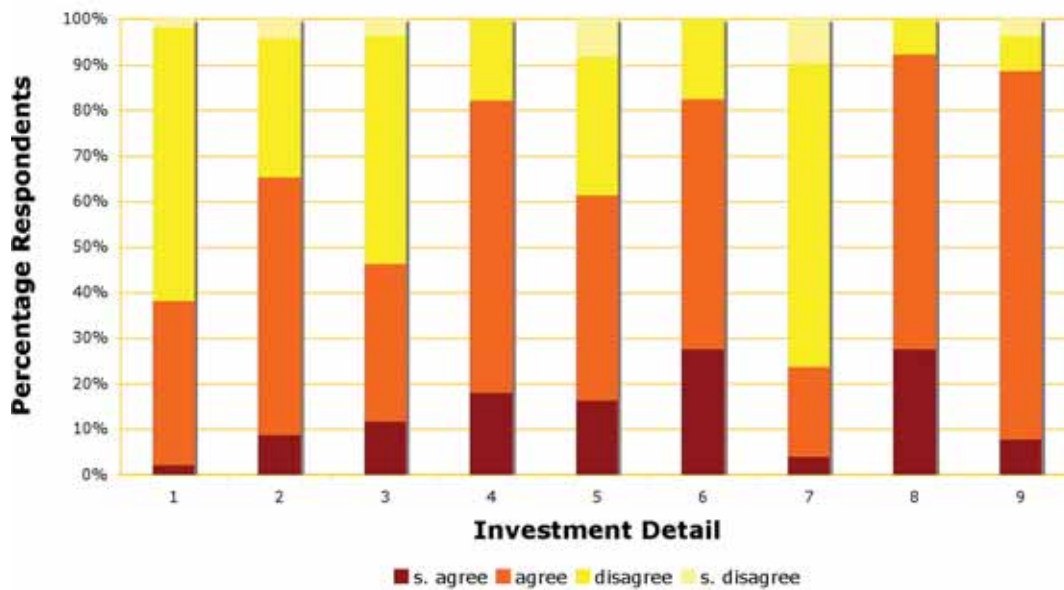


Figure 6. A graph to show the strength of agreement or disagreement with statements associated with scenario 1

Number	Statement
1	The return on investment is too low to interest me
2	If tax relief were to be offered I would be interested in investing
3	I would only invest if I live in the same town
4	I would want to have a very detailed investment prospectus before I could decide
5	The endorsement of an independent financial advisor would help me to decide if it is a good investment
6	I would only invest if there is some security for my investment
7	I would only invest if the business could offer much higher returns on my investment
8	I would like to see some proof that the business is supporting the local community
9	I would be happy to keep my investment in for more than three years

Table 1. The corresponding statements for figure 6

Scenario 2

Importance of Different Features of the Investment Opportunity

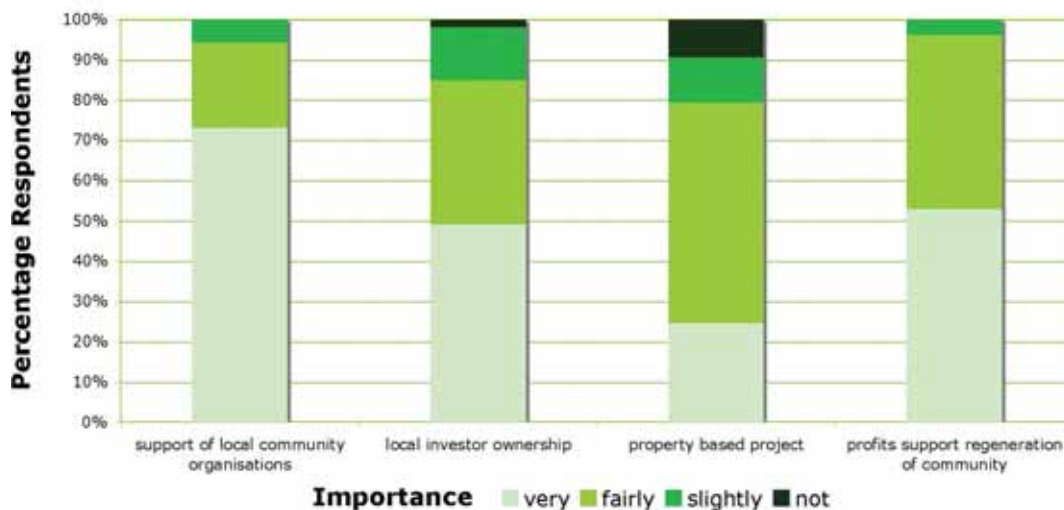


Figure 7. A graph to show the perceived importance of different features of the investment opportunity presented in scenario 2

Over 70 % of respondents in figure 7 thought the fact that this investment opportunity would support a local community organisation was very important. The fact that it is a property-based project is of least importance to the respondents. However, given the previously shown disposition of respondents towards sustainable construction, had the scenario specified that the refurbishment and extension were to be sustainable in design and construction the building criteria may have increased in importance.

Figure 8 shows a large degree of agreement from respondents with the statements presented to them. Only 4 of the 10 statements generated more than 50 % disagreement, these were 1, 3, 7 and 10:

- The return on investment is too low to interest me
- I would only invest if I lived in the same town
- I would only invest if the business could offer much higher returns on my investment
- I would be happy to keep my investment in for at least ten years

This confirms further the relative unimportance of high financial returns over other, more altruistic benefits. It also highlights again that although local initiatives were previously stated to be very important the interpretation of local may come down to region or county.

Four of the statements generated an over 80 % agreement rate, these were 4, 6, 8 and 9:

- I would want to have a very detailed prospectus before I could decide
- I would only invest if there is some security for my investment
- I would like to know more about how the project supports the local community
- I would want to be able to withdraw my investment after five years

This again shows the importance of security for the investment, and evidence and full information of its impacts. It also shows that although, as in scenario 1, people are happy to invest for over three years, over five is possibly too long for investors to see their money back.

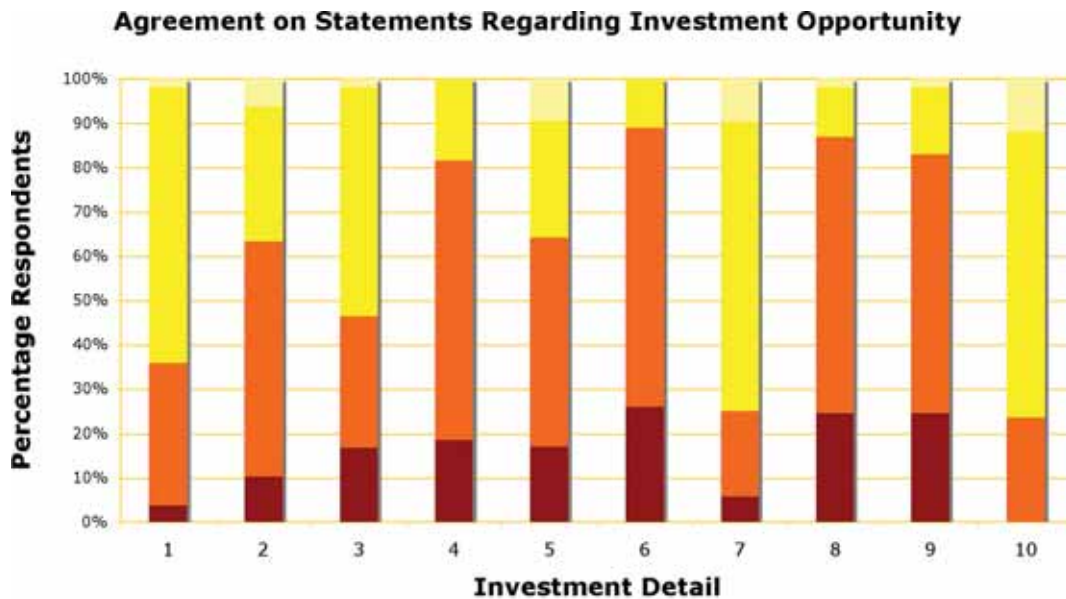


Figure 8. A graph to show the strength of agreement or disagreement with statements associated with scenario 2

Number	Statement
1	The return on investment is too low to interest me
2	If tax relief were to be offered I would be interested in investing
3	I would only invest if I live in the same town
4	I would want to have a very detailed investment prospectus before I could decide
5	The endorsement of an independent financial advisor would help me to decide if it is a good investment
6	I would only invest if there is some security for my investment
7	I would only invest if the business could offer much higher returns on my investment
8	I would like to see some proof that the business is supporting the local community
9	I would be happy to keep my investment in for more than three years

Table 2. The corresponding statements for figure 8

Conclusions

Several important points have come out of this study with regard to conceptualising financial mechanisms to facilitate investment in community initiatives and social ventures. The first of these relates to the nature and marketing of investment opportunities in order to generate interest from investors, and can be summarised as:

- The investments must be secure;
- Social benefits of any investment opportunity are less likely to attract interest than environmental benefits. As the two are often closely linked, using an environmental basis for promotion of the social benefits may be useful;
- Investors are particularly interested in projects in their own locality (although interpretations of locality may stretch to county or region), so matching investment opportunities with investors on a location basis may increase the chances of generating the investors interest;
- The majority of investors actually regard all of the criteria presented to them as fairly or highly important. Therefore investment opportunities that are multi-beneficial and holistic are likely to generate the most interest.

The presentation of scenarios to respondents highlight other interesting points:

- Even the possibility of only a 3 % return on investment did not put respondents off an investment opportunity, confirming that high financial return is not important;
- Respondents were concerned about the security and detail of investment opportunities, demonstrating that although a relatively low return on investment was acceptable, some return on investment and some guarantee of the return on investment was highly important, in other words, ethical investors appear to be low risk, low return in their philosophy;
- Immediate proximity to the investor is not a criteria for investment;
- Investment period of between 3 and 5 years seem to be optimal;
- Investors require assurance and evidence of the benefits projects claim to deliver.

Appendix 2: Initial Investment Appraisal Form

A	A	1	Project name
P	A	2	Project address (with postcode)
P	A	3	Project contact name
L	A	4	Project contact telephone
I	A	5	Project contact e-mail address
C	A	6	Project contact fax number
A	A	7	Name of project's sponsoring body
N	A	8	Advocate name
T	A	9	Advocate address (with postcode)
	A	10	Advocate telephone
	A	11	Advocate e-mail address
	A	12	Advocate contact fax number
	A	13	Name of advocate's sponsoring body (if different)
O	O	1	Does the project fall into the category of Community Assets; Sustainable Food Systems; Enterprises; Other
U	O	2	Please provide a brief outline of your project and what it will do, detailing the degree of local focus.
T	O	3	Why do you need to raise investment capital?
L	O	4	How much do you need?
I	O	5	When do you need it? How many months away are you from being 'investment ready'?
N	O	6	For how long do you need investment capital (when can it be repaid)?
E	O	7	How much income (loan interest / share dividends) can you pay as you go along?
	O	8	Do you propose to repay the investment (& accumulated interest if relevant), if so how?
	O	9	For loan arrangements, what rate of interest are you looking for?
	O	10	For enterprise investments, what amount of shares / size of stake are you offering?
	O	11	What financial return are you offering in return for the investment?
	O	12	What will the investment be secured on?
E	E	1	Current legal structure of sponsoring body (IPS, CLT, Co-Op, CIC etc)
C	E	2	What steps do you have to take to become 'investment ready'?
O	E	3	What monies has the project raised to date, on what terms, and from whom?
N	E	4	What is the projected financial outcome of the project (i.e. describe the expected cocktail of funding)?
O	E	5	What proportion of that cocktail of funding is represented by this proposal?
M	E	6	Are there other applications for funding presently outstanding, if so with whom and what is their status?
I	E	7	Who are the other shareholders / business partners and in what ratio?
C	E	8	Does the project generate (or have the capacity to generate) income? If so, how much?
	E	9	Does the project generate (or have the capacity to generate) capital growth? If so, how much?
R	E	10	For loan arrangements, does the current legal structure have the power to borrow money?
E	E	11	For loan arrangements, is there a surplus of income above that required to service the loan, if so, how much?
T	E	12	For loan arrangements, is there a surplus of security above that required to secure the loan, if so, how much?
U	E	13	Does the project business plan recognise risk factors and identify contingent measures?
R	E	14	Is there a business plan to service the investment? If so, what are the details? Please describe in detail your trading activities
N	E	15	Does the investee have access to expertise to support them, if so, who?
	E	16	Are there many / any years of accounts available?

S	R	S	1	What social (inc. environmental) "return" or "impact" will your enterprise deliver? Describe how you will create positive change.
O	E	S	2	What specific outputs will you deliver, e.g. training, jobs, workspace or facilities created, waste recycled, renewable power generated, etc
C	T	S	3	How will you measure whether these outputs have been delivered?
I	U	S	4	What reporting mechanisms will you use, e.g. annual report, newsletters, social audit, social return on investment, etc
A	R	S	5	Will your project engage or give a control/ownership stake to key stakeholders, e.g. staff, suppliers, customers, the local community?
L		S	6	Will your project have an asset lock?
R		R	1	What perceived risks are there from the project's perspective?
I		R	2	How can these risks be mitigated?
S		R	3	What perceived risks are there from the investor's perspective?
K		R	4	How can these risks be mitigated?
S		R	5	What perceived risks are there from the project customers' perspective?
		R	6	How can these risks be mitigated?

Appendix 3: Example of a part completed due diligence checklist (for Local Food Links Ltd.)

Prospectus dated _____.

Due diligence review.

Page	Item	Statement	Comment	Ok?
1	Introduction to Local Food Links Limited	Local Food Links Ltd is a new “community-benefit” society, established with the support of West Dorset Food and Land Trust.	Any evidence will do (pamphlet, Rules, letters from the FSA, letters from West Dorset Food and Land Trust)	
1		Both organisations work from the Bridport Centre for Local Food.	a. Pamphlet b. Registration doc	
1		The mission of Local Food Links is to provide a range of catering, distribution and retail services which supply high quality, affordable food to the local community.	Business Plan held	
1	Our food policy	Local Food Links will work with Direct from Dorset and other accreditation bodies to ensure that claims made for provenance and traceability can be substantiated.	Letter/agreement from Direct from Dorset	
2	Our current products and services	A fruit scheme for key stage 2 children (7-11 year olds) in 6 primary schools, which supplies local, organic and fair trade produce that is then cut up into fruit salads by parent volunteers and sold to the children.	Copy of agreements with each of the 6 schools.	
	Etc.			
	Etc.			

Appendix 4: The Rules of Wessex Community Assets Ltd

Dated

2006

**Rules
of
Wessex Community Assets Limited**

(Registered office: **The Threshing Barn, Woodhayes, Luppitt, Honiton, Devon EX14 4TP**)

(incorporated under the Industrial and Provident Societies Act 1965)

Reinvestment Rules - Community Assets Model

Registered number 30175R

Wessex Reinvestment Society Ltd

The Threshing Barn

Woodhayes

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Honiton

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Fax +44 (0)23 8082 7441

e-mail: enquiries@lester-aldridge.co.uk

Rules of Wessex Community Assets Limited

A Name, number and main objects

1 What is the society's name and number?

- 1.1 The society's name is Wessex Community Assets Limited.
- 1.2 The society's registered number is 30175R.
- 1.3 The society's registered office is The Threshing Barn, Woodhayes, Luppitt, Honiton, Devon EX14 4TP.

2 What are the society's objects?

- 2.1 The society aims to:
 - 2.1.1 Maintain or improve the physical, social and economic infrastructure within the South West of England;
 - 2.1.2 Advance education (particularly concerning asset based community development and enterprises with a community or environmental focus); and
 - 2.1.3 Provide an opportunity for public-spirited people and organisations to contribute financially to the community, with the expectation of a social dividend, rather than personal financial reward.
- 2.2 Examples of the ways in which the society may carry out its objects may include:
 - 2.2.1 Providing housing for those in need and help to improve housing standards;
 - 2.2.2 Creating training and employment opportunities by the provision of workspace, buildings or land;
 - 2.2.3 Developing new or existing services to the local community that contribute to the local economy.
- 2.3 Those objects are carried on for the benefit of the community.
- 2.4 The society's members may, subject to the registration of a rule amendment by the Financial Services Authority, change the society's objects. See rule 31.

B Rights of members of the society

3 What types of share are there?

- 3.1 All shares in the society are ordinary shares with a nominal value of one pound each. The 'par' or 'capital' value of shares may be reduced in some circumstances (see rule 16).
- 3.2 The society may issue some shares as designated for a particular purpose. Those shares may carry a risk or return which is different from that for other shares. (see rule 16.5). However, all shares irrespective of their issue will have the same voting rights.

4 What is the minimum shareholding?

- 4.1 Members of the society must have a minimum shareholding of one share.
- 4.2 Members that withdraw all of their shares will no longer be members of the society.

5 What is the maximum shareholding?

- 5.1 A member's total shareholding cannot exceed the maximum the law allows. Currently that is £20,000. But that limit does not apply if the member is an industrial and provident society.
- 5.2 In rule 5.1, a member's total shareholding includes all shares registered in the member's name, including (for example):
 - ? All shares jointly held with others; and
 - ? Shares held on behalf of others.

6 How to become a member of the society?

- 6.1 On formation of the society, the subscribers to these rules become members, each holding one share. (This rule does not apply to the society where the society is adopting these rules in substitution for an earlier set of rules).
- 6.2 The directors of the society will, from time to time, set the procedures and forms to be used for applying for shares and for the minimum allowable shareholding under rule 4.1. Those procedures should include the following:
- 6.2.1 The directors will obtain legal advice, to confirm that any proposed financial promotion:
- a. Does not contain any untrue or misleading statement; and
 - b. Gives a reasonable and fair description of the risks associated with holding withdrawable shares in this society; and
 - c. Complies with any voluntary code or guidance which the society may, from time to time, agree.
- 6.2.2 For this rule, a proposed financial promotion is any document issued by the society to promote the issue of shares (or anything else which might be considered an investment if issued by a company, such as a bond, for example).
- 6.2.3 For this rule a document also includes 'non-real time communications' and 'real time communications' (as described in article 7 of the Financial Services and Markets Act 2000 [Financial Promotion] Order 2001; SI 2001/1335¹), even if it is not in documentary form.
- 6.3 Members must pay £1.00 for each share for which they apply.
- 6.4 When shares are issued, the society will provide a share certificate in respect of those shares. At that time a member's details will be entered into the society's register of members.
- 6.5 The society may operate a share purchase instalments scheme to help members to purchase the minimum shareholding. Some legal restrictions may govern the operation of that scheme.
- 6.6 The society will take reasonable steps to verify the identification of members. The society will retain a copy of all documents seen to verify the identity of a member.

7 How do members withdraw their shares?

- 7.1 All shares are withdrawable. When members withdraw shares, the society may return the money paid for them. Subject to rule 16.1 this does not apply if the society has reduced the capital value of shares (by passing a board resolution, under rule 16.4.1). In that case the society will return only the reduced capital value of the shares.
- 7.2 If shares are withdrawn the society will pay any interest accrued to the date of withdrawal.
- 7.3 Shares may be withdrawn on 180 day's notice. All withdrawals shall be in the order in which the notices are received by the society.
- 7.4 The society may waive that notice period, or accept a shorter notice period. That will be at the sole discretion of the society's directors and members have no right to insist that the society should waive or reduce the normal notice period.
- 7.5 Members must return their share certificates to the society 180 days after providing notice of withdrawal.
- 7.6 When members apply to withdraw shares, they will need to
- ◇ Complete a withdrawal form (as set by the society's directors);
 - ◇ comply with any procedures the society's directors may set; and
 - ◇ produce evidence of identity (if not previously provided).
- 7.7 From time to time, the society may suspend (or limit) a member's right to withdraw shares.
- 7.8 There is a minimum number of members. The minimum is currently:
- ◇ two (if both members are industrial and provident societies); or
 - ◇ three (if any member is not an industrial and provident society).

If...

the society has no more than the minimum number of members...

then...

those members can withdraw some of their shares, *but*,

those members cannot withdraw all of their shares.

- 7.9 Members may end their membership of the society by withdrawing all their shares. Or, if the right to withdraw is suspended by rule 7.7, members may surrender all their shares. On surrender the directors of the society may (but do not have to) pay some or all of the money paid for the shares.

8 What if a member loses their share certificate?

- 8.1 The members of the society are those whose names are on the register of members. So, at their discretion, the directors may allow the society to replace a lost or destroyed share certificate.
- 8.2 The directors may set conditions for the replacement. Members will have to meet those conditions before the society can issue the replacement.

9 Can a member sell their shares?

- 9.1 A member cannot transfer any of their shares to any other person.

10 What are a member's voting rights?

- 10.1 At the society's annual general meeting (and other general meetings of the society), each member has one vote. Members will have one vote each irrespective of the number of shares they may hold.

11 Can a member hold shares in joint names?

- 11.1 A member may hold any shares in their own name. Or they may hold them jointly (with up to three others).
- 11.2 Suppose a member represents an unincorporated association (perhaps a club or society, for example). The association's shares must be held in the joint names of two or more persons. The association cannot hold shares in its own name (but the holders of its shares may ask the society to note the association's name and address in the society's register of members).
- 11.3 For voting and the payment of interest, the joint holders of a share are one shareholder and one member.
- 11.4 If a member holds a share jointly, the member and the other holders of that share may go to the society's general meetings (and speak at them). But only one of the holders of that share can vote. If the holders of the share cannot agree between them who is to vote, it will be the person named first (in the society's register of members).
- 11.5 Similarly, the society will send correspondence, notices, and the share certificate, only to the person named first (in the society's register of members), unless that person gives the society different, written, instructions.
- 11.6 Similarly, the society will pay interest only to the person named first (in the society's register of members), unless that person gives the society different, written, instructions.
- 11.7 Unless members give the society different, written, instructions, all joint holders of a share must sign an application to withdraw the share.

12 Can children own shares?

- 12.1 Members must be 16 years old, or older.
- 12.2 A person under 16 cannot be a member. But a member can hold shares on behalf of somebody who is under 16. The society has to treat those shares as belonging to that member (and not the child), for the purposes of rule 5.1 (which sets the greatest total value of shares a member can have in their name). Following that person's 16th birthday, they may become a member of the society and those shares can pass on to them.

13 What happens on death or bankruptcy?

13.1 This rule 13.1 applies on the death of a member holding a share in their own name.

For shareholdings of £5,000 or less:

If ...

The member has named a person to take the shares on their death (called the member's **nominee**),

...and if...

...the shares registered in the member's name have a total value of £5,000 (or less),

then...

the society will transfer the shares to the member's nominee.

For shareholdings greater than £5,000:

If ...

The member has named a person to take the shares on their death (called the member's **nominee**),

...and if...

...the shares registered in the member's name have a total value of more than £5,000,

then...

...the society will transfer the shares to the member's nominee, but only for shares with a total value of £5,000. The society will decide which shares transfer to the member's nominee. The member's personal representatives will have to deal with the other remaining shares.

For shareholdings where the nominee is younger than 16 (when they could take the shares):

If ...

The member has named a person to take the shares on their death (called the member's **nominee**),

...and if...

...the member's nominee is younger than 16 (when they could take the shares),

then...

...the society may treat an adult (the nominee's mother, father, or guardian, for example) as having the rights of the nominee. The society will then transfer the member's shares to them. That adult must undertake to hold the shares on trust for the nominee.

For shareholdings where the member has no nominee and the value is £5,000 or less:

If ...

The member has NOT named a person to take the shares on their death,

...and if...

...the shares registered in the member's name (and any other interests the member may have with the society) have a total value of £5,000 (or less),

then...

...the society may (at the society's discretion) transfer the shares to the person who seems to have the legal right to them (member's wife, husband, civil partner or children, for example). The society will ask for evidence of their right. The society is unable to transfer the shares to that person if the personal representative has applied for probate or letters of administration.

For shareholdings where the member has no nominee and their personal representatives have applied for probate or letters of administration, and the value is £5,000 or less:

If ...

The member has NOT named a person to take the shares on their death, BUT their personal representatives have applied for probate or letters of administration,

...and if...

.... the shares registered in the member's name (and any other interests the member may have with the society) have a total value of £5,000 (or less),

then...

... the society will transfer the shares to the member's personal representative. The society must see the probate or letters of administration.

For shareholdings where the member has no nominee and the value is greater than £5,000:

If ...

The member has NOT named a person to take the shares on their death,

...and if...

... the shares registered in the member's name have a total value of more than £5,000,

then...

...the society will transfer the shares to the member's personal representative. The society must see the probate or letters of administration.

13.2 After the society has transferred the member's share to their personal representative, the personal representative:

- ◇ may apply to withdraw the share;
- ◇ may apply to receive any interest that may become due on the share before they withdraw it;
- ◇ but cannot exercise any other membership rights for that share.

13.3 Any other person to whom the society transfers a member's shares (under rule 13.1) will have all the membership rights previously enjoyed by the member.

13.4 This rule 13.4 applies on the death of a member who held a share jointly with others.

If...

The member has not given the society written instructions...

... then...

The society will treat the surviving owner (or owners) as the only (joint) owner of that share.

If...

The member has given the society written instructions to do...

...then...

Rule 13.1 tells the society who to register in the member's place.

13.5 This rule applies to the member's replacement (the person to whom the society transfers the member's shares under rules 13.1 or 13.4). Rules 13.1 and 13.4 do not allow the member's replacement to hold (on their own or jointly, with others) shares with a total value greater than the law allows. See rule 5.1.

13.6 After the society receives written proof that a member is bankrupt, the trustee of their estate may apply to withdraw the share. The trustee may also then apply to receive any interest that may become due on the share before they withdraw it. The trustee cannot exercise any other membership rights for that share. This rule 13.6 applies if the share was in the member's sole name.

13.7 This rule 13.7 applies when the society receives written proof that a joint holder of a share is bankrupt. The society will then substitute the interest of the trustee of their estate for the name of that joint holder (in the society's register of members). The trustee will be substituted as the last named person (of the joint holders of that share) registered as holding that share. The society will automatically cancel any written instructions that vary the effect of rules 11.5, 11.6, or 11.7.

14 Will members get a windfall if the society converts?

14.1 The society may convert itself into a company, amalgamate with another society or company, or transfer its business to another society or company. The society or company (into which the society converts, or with which it amalgamates, or to which it transfers its business) must have objects similar to those of the society. The procedures and conditions for that are in ss50-52 and s54 of the Industrial and Provident Societies Act 1965.

14.2 Members are not to benefit financially if the society converts, or transfers its business or is wound up (see rule 32.5). The society may make it a condition of membership that members sign a contract with the society prior to becoming a member, in such form as the society's directors require, by which members give up any personal financial benefit from conversion, or transfer, or winding up.

The society may also make it a condition that for any members that were not previously subject to such a contract, that such a contract becomes a condition of their ongoing membership, subject to the agreement of members at an AGM and where relevant, the registration with the Financial Services Authority of any related rule amendments.

14.3 Members appoint the society's secretary as their attorney (for this purpose only and no other). The society's secretary may sign the contract referred to in rule 14.2 above for members if members do not sign it and return it within 14 days after the society asks them to. That appointment is irrevocable and granted to secure members' obligation in rule 14.2.

15 Will the society pay interest on shares?

15.1 The society may use its property and profits only to promote its objects. The society will not pay members any dividend, bonus or other share in profits.

15.2 Rule 15.1 does not prevent the society from paying interest on shares. The directors of the society will set the rate of interest (if any). It will be a variable interest rate. Subject to the agreement of members at an AGM, the directors may decide to pay interest to members on their shares by issuing further shares.

15.3 The society will not pay a rate of interest that is higher than needed to fund the society's activities. In setting the rate, the society's directors will take particular account of the society's intention to provide an opportunity for public-spirited people and organisations to contribute financially to the community, with the expectation of a social dividend, rather than personal financial reward.

15.4 The society will calculate the interest on the money paid for the shares (unless their capital value has been written down under rule 16.4.1). While shares are written down under rule 16.4.1 the society will calculate the interest on that written down value.

15.5 Rule 15.1 does not prevent the society from setting aside a reserve fund. The society's directors are to decide how much is to be transferred to the reserve fund. The reserve fund may be used to meet any contingency which affects the society's business. But, before the society can use the reserve fund:

15.5.1 the directors have to recommend its use to a general meeting of members; and

15.5.2 the general meeting must approve its use (by a simple majority).

15.6 Rule 15.1 does not prevent the society from paying money to support:

15.6.1 co-operative development; and

15.6.2 educational purposes; and

15.6.3 charitable purposes.

15.7 The directors may propose payments authorised by rule 15.6. But, before the society can make the payment:

15.7.1 the directors have to recommend it to a general meeting of members; and

15.7.2 the general meeting must approve it (by a simple majority).

15.8 Rule 15.1 does not prevent the society from paying (in good faith):

15.8.1 (at a reasonable and proper rate) for services rendered to the society by any of its employees, officers or members, and reimbursement of their expenses; and

15.8.2 (at a reasonable and proper rate) rent, for premises let to the society by any of its employees or officers.

16 Can members have their shares taken from them?

- 16.1 The society may reduce the value of shares if the society's liabilities (plus issued share capital) become more than the value of the society's assets. The circumstances in which this may happen are described below (in rules 16.2 to 16.4). Those rules 16.2 to 16.4 also describe the procedures the society must follow to do that.
- 16.2 Suppose that the society's directors believe that the society's liabilities (plus issued share capital) may be more than the value of the society's assets. The directors then may instruct accountants to report to them. The accountants may be the society's auditors, or they may be independent qualified accountants.
- 16.3 Suppose that the accountants appointed under rule 16.2 report to the directors that the society's liabilities (plus issued share capital) are more than the value of the society's assets. The directors may then decide to apportion the excess liabilities (or part of them) among the shareholders. When the excess liabilities are apportioned, the total of the excess will be apportioned among the shareholders in proportion to the total nominal value of shares held by each member. The total nominal value, for these purposes, will be taken to be that at the close of business on the date of the apportionment.
- 16.4 Suppose that the directors resolve to apportion the society's excess liabilities in accordance with rule 16.3. The directors must then resolve either:
- 16.4.1 That the capital value of each share then in issue is reduced accordingly, but:
- 16.4.1.1 The society shall not reduce the capital value of any share below zero (that is to say a member will not owe any money to the society); and
- 16.4.1.2 The society may restore the capital value, by a similar procedure to that described in rules 16.2 to 16.4 (but only where the value of the society's assets is more than the liabilities [plus nominal issued share capital]); and
- 16.4.1.3 if the society restores the capital value, the society shall not increase it above one pound; and
- 16.4.1.4 all shares the society may issue later (after the society has reduced the capital value of any shares) are to be issued at par (and for a nominal value of *one pound* each).
- 16.5 Rules 16.2 to 16.4 may not apply to assets, liabilities and share capital which are designated to specific purposes in accordance with rule 3.2. Shares may be issued on the bases that:
- 16.5.1 they are designated to a specific purpose (under rule 3.2); and
- 16.5.2 the funds for that purpose are treated as separate from the society's other funds.
- 16.6 If shares are issued on those bases (in rules 16.5.1 and 16.5.2), this rule 16.6 applies. The assets, liabilities and share capital for each of those purposes (the **Special Purpose Funds**) are treated separately from the society's other assets, liabilities and share capital (the **General Purpose Funds**) in following the procedures in rules 16.2 to 16.4. And the procedures in rules 16.2 to 16.4 do not have to be applied to any of the Special Purpose Funds when they are applied to the General Purpose Funds. Similarly, the procedures in rules 16.2 to 16.4 may be applied to any of the Special Purpose Funds in isolation; they do not have to be applied to any other of the Special Purpose Funds (or the General Purpose Funds) at the same time.

C Management of the society

17 The directors

- 17.1 The people nominated (as directors) by the subscribers to these rules became the first directors of the society, when it was formed. (This rule does not apply to the society where the society is adopting these rules in substitution for an earlier set of rules).
- 17.2 The directors:
- ◇ manage the business of the society;
 - ◇ may (at any board meeting at which there is a quorum) exercise any of the society's powers;

- ◇ may delegate any of their powers to a committee (of 2 or more directors);
 - ◇ may delegate any of their powers to a sole director;
 - ◇ may appoint any person to act as the agent of the society (and they may authorise that person to delegate their powers).
- 17.3 The society has a minimum of two directors (see also rule 17.7). If there is one director, the sole director has authority to appoint a second director.
- 17.4 The directors on the society's board are appointed by members at the annual general meeting. All candidates for a board position must find members to act as a proposer and seconder and then declare their intention to stand for the board 14 days before the annual general meeting. Between annual general meetings, the board may appoint a director either:
- ◇ to fill a vacancy; or
 - ◇ as an additional director.
- 17.5 Directors appointed by the board must stand down at the end of the next annual general meeting. The members may reappoint them, at that annual general meeting.
- 17.6 The society will hold a special general meeting within six months after the society is formed. The directors appointed by the subscribers to these rules (see rule 17.1) must stand down at the end of that special general meeting. The members may reappoint them, at that special general meeting. (This rule does not apply to the society where the society is adopting these rules in substitution for an earlier set of rules).
- 17.7 The members may increase the minimum number of directors (by changing rule 17.3, but any such increase would only take effect once an appropriate rule amendment had been registered by the Financial Services Authority).
- 17.8 Directors do not have to be members of the society. Directors may be members of the society. Directors must be individuals
- 17.9 A director, chief executive or secretary cannot be appointed if they are (and must stand down if they become):
- ◇ Bankrupt; or
 - ◇ Convicted of an offence of dishonesty; or
 - ◇ convicted of another offence (which, in the board's opinion, makes them unsuitable to hold office); or
 - ◇ disqualified from acting as a director (under the Company Directors Disqualification Act 1986); or
 - ◇ unable to conduct regulated activities on behalf of another organisation because the Financial Services Authority (FSA) withdraws their approval (under the Financial Services and Markets Act 2000 (FSMA)); or
 - ◇ unable to conduct regulated activities because the FSA makes a prohibition order against them (under FSMA); or
 - ◇ (in the board's opinion) physically or mentally unable to carry out their duties properly.
- 17.10 Directors must stand down if:
- ◇ Without good reason and without the board's permission they fail to attend three board meetings in a row;
 - ◇ the board resolves that they should be removed.
- 17.11 The society can pay its directors, but only if the members approve the basis for the payments.

18 Retirement by rotation

- 18.1 At least one third of the directors appointed by the members must stand down (as well as any directors who must stand down under rule 17.5), at each annual general meeting. The members may reappoint them, at that annual general meeting. If any director is not reappointed, they will stand down at the end of the annual general meeting.

- 18.2 The directors who stand down, at an annual general meeting, will be those directors who have held office for the longest time (since their appointment, or last reappointment). The chair may decide, by drawing lots, who is to be treated as in office for the longest time, if more than one director was appointed or reappointed on the same day.

19 The secretary

- 19.1 The board appoints the secretary. The secretary may be a director.
- 19.2 The board may remove the secretary.
- 19.3 The secretary is responsible for preparing and sending all returns to be made to the Financial Services Authority.

20 Co-opted committee members

- 20.1 The board may co-opt committee members.
- 20.2 The committee members co-opted by the board:
- ◇ Need not be members of the society (but the board may require that they be members of the society);
 - ◇ may attend board meetings (unless the board decide that they may not);
 - ◇ may speak at board meetings (unless the board decide that they may not);
 - ◇ may attend board committee meetings (unless the board decide that they may not);
 - ◇ may speak at board committee meetings (unless the board decide that they may not);
 - ◇ may not vote at board meetings, or board committee meetings;
 - ◇ must stand down at the next annual general meeting (but the board may reappoint them).

21 Board meetings

- 21.1 Two directors are a quorum for board meetings (unless the directors decide on a higher number).
- 21.2 Any director may request the secretary to call a board meeting.
- 21.3 The secretary must call a board meeting on request from a director.

22 Decisions of the board

- 22.1 The board may make decisions by a majority vote. The chair has a casting vote if votes are equal.
- 22.2 The board may appoint any director to chair board meetings generally, or to chair a particular board meeting.
- 22.3 The board may make any decision by signing a written resolution, rather than at a board meeting. All directors must sign the resolution for it to be effective.
- 22.4 A board committee may make any decision by signing a written resolution, rather than at a committee meeting. All directors on the committee must sign the resolution for it to be effective.
- 22.5 This rule 22.5 applies to rules 22.3 and 22.4. The directors need sign only a copy of the text of the resolution. They do not each have to sign the same piece of paper.

23 Directors' interests

- 23.1 Directors must disclose – to the full board – any material interest they may have in any matter being considered by the board, or any committee. The director may not then:
- ◇ be treated as part of the quorum of the meeting discussing that matter; or
 - ◇ vote on that matter.
- 23.2 Directors may disclose their interest by a general notice giving details of their interest in transactions of a particular nature, or with a particular person.
- 23.3 For the purposes of rule 23.1, a director need not disclose an interest:
- That does not conflict with the interests of the society; or
 - that arises out of the director's membership (or proposed membership) of the society; or
 - which – for good reasons – the director does not know about.

- 23.4 For the purposes of rule 23.1, a director must disclose an interest:
Even if it is an indirect interest; or
of a person ‘connected’ with him (see rule 37.2).
- 23.5 Before any meeting of the board (or a committee), the chair may decide whether a director (other than himself) has a material interest in the matter to be discussed. The chair’s ruling is final.
- 23.6 A director who complies with rule 23.1 will not be treated as in breach of any duty of good faith to the society, to the extent that they have made a fair disclosure of their interest.

24 Indemnity for directors

- 24.1 The society may maintain insurance for the benefit of its directors, secretary, auditors and other officers, against liabilities they may incur:
- ◇ in the performance of their duties; or
 - ◇ in defending themselves (successfully) against any proceedings (criminal or civil) for breach of duty.
- 24.2 The society will indemnify its directors, secretary, auditors and other officers against:
- ◇ Any liability they may incur in the performance of their duties; and
 - ◇ in defending themselves (successfully) against any proceedings (criminal or civil) for breach of duty.

25 Audit and accounts

- 25.1 The members must appoint an auditor at each annual general meeting to whom the accounts of the society for that year shall be submitted for audit. The auditor may be re-elected.
- 25.2 The directors must appoint an auditor within three months after the society is formed.
- 25.3 The directors may appoint an auditor if, for any reason, there is no auditor.
- 25.4 The auditor must be a qualified auditor (see s7 of the Friendly and Industrial and Provident Societies Act 1968).
- 25.5 The auditor may not be a person whom s8 of the Friendly and Industrial and Provident Societies Act 1968 prevents from being appointed as an auditor.
- 25.6 The auditor may be removed by the procedure in s6 Industrial and Provident Societies Act 1968.

26 The seal of the society

- 26.1 The society has a seal with the society’s name on it.
- 26.2 The secretary of the society keeps the seal.
- 26.3 The society needs the authority of a board resolution to use the seal.
- 26.4 When the society seals a document, the seal must be countersigned by either:
- ◇ A director and the secretary of the society; or
 - ◇ Two directors of the society.
- 26.5 Once s29C Industrial and Provident Societies Act 1965 takes effect, the society may execute deeds (and other documents for which the society would otherwise need to use its seal) without using the society’s seal.

D Meetings of members

27 The annual general meeting

- 27.1 The society will hold an annual general meeting of its members in each calendar year. The society will hold each annual general meeting 12 months after the previous one, but this need not be on the anniversary of the previous meeting but must be held within three months before or after that anniversary. The directors will call the annual general meeting.
- 27.2 The society will hold its first annual general meeting within 15 months after the society is formed

(but it need not be in the calendar year in which the society is formed). (This rule does not apply to the society where the society is adopting these rules in substitution for an earlier set of rules).

27.3 The society will give members (and its auditors) at least 21 clear days notice of the annual general meeting.

27.4 The business for the annual general meeting is:

- ◇ approval of the minutes of the last annual general meeting (and any more recent special general meeting);
- ◇ the directors' report;
- ◇ approval of the accounts and auditor's report;
- ◇ appointment of auditors;
- ◇ election of directors;
- ◇ any other business.

28 Special general meetings

28.1 A special general meeting is any general meeting of members, which is not an annual general meeting.

28.2 The directors may decide to call a special general meeting.

28.3 The society will give members (and its auditors) at least 21 clear days notice in writing of a special general meeting. The only business the society can do at that meeting is that which is identified in the notice.

28.4 The directors must call a special general meeting:

- ◇ if the greater of five of the society's members or 10 % of the society's membership sign written requests for a special general meeting;
- ◇ to be held within six weeks after they receive the requests.

29 Procedure at general meetings

29.1 The quorum for a general meeting is:

- ◇ two members; or
- ◇ (if the society has more than 20 members) 10 % of the society's members.

29.2 If there is no quorum when the meeting is due to start, the chair will wait for 30 minutes.

29.3 If there is no quorum after the chair has waited for 30 minutes, the chair must adjourn the meeting. The chair must also adjourn the meeting if the number of members present becomes fewer than the quorum. The directors will decide where and when the society will hold the adjourned meeting.

29.4 The chair may adjourn a meeting when a quorum is present. But the meeting must agree to the adjournment. The chair must adjourn the meeting if the members call for an adjournment.

29.5 If a meeting is adjourned for more than 14 days, the society will give members at least 7 clear days notice of the adjourned meeting.

29.6 The chair of the board, if present, will chair the general meeting. Otherwise, the directors at the meeting will choose a director present to chair that meeting. If only one director is at the meeting, they will chair it. If there is no director at the meeting, the members must choose a member present at the meeting to chair it.

29.7 Any director may attend and speak at general meetings.

29.8 Members may appoint a proxy to represent them at any general meeting. The society will send the member a suitable form with the formal notice of the meeting. The proxy may vote in the member's place on the member's instructions.

30 Voting at general meetings

30.1 All members have one vote regardless of how many shares they hold.

30.2 All votes will be on a show of hands unless:

- ◇ Two members; or
- ◇ The chair

call for a ballot. They may call for a ballot before a vote on a show of hands, or after the vote. If members call for a ballot, they can – if the chair agrees – withdraw the call before the ballot is held. If no ballot is held, the decision on the show of hands is valid.

- 30.3 The chair will decide the procedure for the ballot.
- 30.4 The chair has a casting vote if votes are equal. The chair may also vote as a member (if they are a member).
- 30.5 The directors may decide to call a postal ballot. They cannot use a postal ballot to let members vote:
- 30.5.1 on anything that – by statute – must be passed at a meeting of the Society; or
 - 30.5.2 to appoint or reappoint auditors; or
 - 30.5.3 to remove auditors.
- 30.6 The chair will decide the procedure for the postal ballot, but the ballot must be held within 30 days of the date on which the directors decide to call it.
- 30.7 If the postal ballot is on a particular resolution passed by members at a meeting, the directors have 30 days from the date of the meeting to decide whether to call a postal ballot. If the directors fail to decide to call a postal ballot within those 30 days, they lose the right to call a postal ballot.
- 30.8 If the postal ballot is on a particular resolution passed by members at a meeting, the operation of the resolution is suspended until the decision of the postal ballot.

Potentially the ballot may take place up to 60 days after the meeting at which the resolution was passed

E The constitution of the society

31 Changes to the rules

- 31.1 The society may change its rules:
- ◇ With the approval of a resolution passed by a 75 % majority (or a simple majority, to change the society's name) of members voting at a general meeting; and
 - ◇ Subject to registration of the amendments by the Financial Services Authority.
- 31.2 The chair has no casting vote on resolutions that need a 75 % majority.
- 31.3 A resolution to alter or amend rule 2 (the society's objects), rule 15 (interest on shares), rule 14 (conversion of the society), rule 32 (winding up) and this rule shall not be passed if 10 % or more of members present or represented at a general meeting and who vote on the resolution vote against it.

32 Winding up the society

- 32.1 The society may be wound up in accordance with the provisions of s55 of the Industrial and Provident Societies Act 1965.
- 32.2 If the society is wound up, members may not withdraw any of their shares until all the society's liabilities are paid (or provided for) in full.
- 32.3 If the society is wound up, the society will use the funds available (after all liabilities are paid - or provided for - in full) to pay to members any money due to them on the withdrawal of their shares.
- 32.4 Supposing the society is wound up with insufficient funds to pay, in full, all money due to all shareholders (for the withdrawal of their shares). The society will then pay members a dividend of less than 100 pence for every pound due to them (for the withdrawal of all of their shares). The society will pay the same rate of dividend to all shareholders. (Where there are "special purpose" shareholders in addition to "general purpose" shareholders, under rules 16.5 and 16.6 the dividend for "special purpose" shareholders will be calculated separately and will be the same for all "special purpose" shareholders).
- 32.5 There may be a surplus if the society is wound up with enough funds to pay, in full, all money due to members, for the withdrawal of all their shares. Then:
- 32.5.1 Members will not, under any circumstances, have any right to any payment out of the

surplus.

- 32.5.2 The society will pay the surplus to another organisation with similar purposes to the society's (and whose members will have no right to any surplus on its winding up or conversion), or to a charity. The directors will choose the organisation or charity.

33 Powers

- 33.1 To carry out the society's objects, the society may:
- 33.1.1 Acquire assets and property which, in the directors' opinion, may benefit the society's objects;
 - 33.1.2 set up subsidiary companies, societies and other organisations;
 - 33.1.3 take and hold shares, memberships, stock, debentures and other interests in other companies, societies and other organisations for the society and others;
 - 33.1.4 buy, lease, hire, rent and own any real or personal property (tangible and intangible) of any description which, in the directors' opinion, is appropriate for the needs of the society's objects;
 - 33.1.5 make arrangements with any government or authority (local, municipal, national or international) that, in the directors' opinion, is appropriate for the society's objects;
 - 33.1.6 invest the society's funds in such property and investments as the directors may consider appropriate, and subject to any applicable legal restrictions;
 - 33.1.7 carry on any other activity which, in the directors' opinion, may benefit the society's objects;
 - 33.1.8 lend, deposit and advance money and give credit or procure others to do the same to or with partnerships, companies other businesses, undertakings and concerns of all kinds;
 - 33.1.9 act as agent;
 - 33.1.10 act as trustee;
 - 33.1.11 give or procure guarantees and indemnities for the payment of money or for the performance of obligations by any person (even where the society receives no direct or indirect financial benefit);
 - 33.1.12 make or procure grants, gifts, donations and investments of a social nature;
 - 33.1.13 take mortgages, charges, liens and other security to secure obligations of others to the society;
 - 33.1.14 borrow money and accept credit and grant mortgages, charges, liens and other security to secure the society's obligations, but
 - 33.1.14.1 the society may not carry on a deposit taking business (within the meaning of the Banking Act 1987; and
 - 33.1.14.2 where:
 - 33.1.14.2.1 the loan is unsecured, and
 - 33.1.14.2.2 the lender is not itself authorised under the Banking Act 1987,
 - 33.1.14.3 the society will not pay a rate of interest that is higher than the society needs to fund its activities; in setting the rate, the directors will take particular account of the society's intention to provide an opportunity for other public-spirited people and organisations to contribute financially to the community, with the expectation of a social dividend, rather than personal financial reward;
 - 33.1.15 provide and procure services such as giving advice in relation to financial and non-financial facilities for people, undertakings and businesses of all kinds.
 - 33.1.16 Create, make, draw, accept, endorse, execute, issue, discount, buy, sell, negotiate and deal in bills, notes, bills of lading, warrants, coupons, debentures and other negotiable or transferable instruments;
 - 33.1.17 Do such other things that the directors regard as incidental or conducive to the pursuit of the society's objects and the exercise of the society's express and implied powers.

33.1.18 Registration of a society or its rules under the Industrial and Provident Societies Act 1965 does not give any permission for a society to carry on financial services as regulated by the Financial Services and Markets Act 2000 ("FSMA"). Any society which wishes to carry on such activities must seek advice and make an authorisation application to the FSA under Part IV of FSMA. Carrying on such activities without authorisation from the FSA under FSMA may lead to prosecution.

33.2 The society's borrowing limit is £10,000,000.

33.3 Rules 2 and 33 should be interpreted in the broadest way possible and not to limit or restrict the society's objects. Each object should be read as an independent main object.

34 Registered Office

34.1 The society's registered office is the address given – for that purpose – to the Financial Services Authority.

34.2 The society's directors may change the address of the registered office. Any change to the address of the registered office must be registered by the Financial Services Authority.

35 The Euro

35.1 This rule 35 applies if a currency, other than sterling, becomes legal currency in England and Wales. In this rule 35, that currency is called the Euro.

35.2 The directors may make regulations to allow the society to issue shares denominated in the Euro (and convert shares then in issue into shares denominated in the Euro). Those regulations may:

35.2.1 allow the issue of shares, with rights similar to shares then in issue, with such value as the board thinks appropriate;

35.2.2 deal with the conversion of shares then in issue into their Euro denominated equivalents;

35.2.3 deal with the conversion of Euro denominated shares into shares equivalent to those then in issue.

36 Notices

36.1 The society may post formal notices to members at the address recorded in the society's register of members.

36.2 The society may assume – for all purposes – that members receive formal notices two working days after the society posts them.

36.3 For these purposes, Saturday, Sunday and public holidays are not working days.

37 What words mean – definitions

37.1 In rules 14.2 and 14.3, the word 'contract' includes a declaration of trust and a deed.

37.2 In rule 23.4, the word 'connected' is used in the same sense in which it is used in s346 Companies Act 1985.

37.3 In rule 24.2, the phrase 'breach of duty' includes (for example), negligence, default, breach of trust or misfeasance.

37.4 In rule 32.2, the expression 'if the society is wound up' is used to mean 'from the commencement of the winding up'. The phrase 'commencement of the winding up' is used in the same sense as it is used in the Insolvency Act 1986.

37.5 In rules 15.8.2, the word 'officers' includes the society's directors and secretary.

37.6 The age restrictions in rule 12 apply to members only if they are individuals.

37.7 In rule 14.3, the appointment of the society's secretary as the members' attorney is an appointment of the person from time to time holding that office.

37.8 References to (any provision of) an Act of Parliament are treated as referring to:

37.8.1 it as amended (whether before today or later) and

37.8.2 any provision which replaces it (unchanged or amended) after today.

F Rules to support on-lending activities

38 Money Laundering

38.1 The society will appoint a Money Laundering Reporting Officer (MLRO). The functions of the MLRO will be:

- 38.1.1 To establish and maintain procedures to prevent money laundering;
- 38.1.2 To establish and maintain awareness among the society's staff of the procedures to prevent money laundering, including the provision of training;
- 38.1.3 Receiving internal money laundering reports on suspicious activity;
- 38.1.4 Making external reports to Serious Organised Crime Agency (SOCA) if it is considered that the suspicion is justified.

39 Systems and Controls

39.1 The society will maintain systems and controls which would satisfy (Chapter 3 of Systems & Controls SYSC) the FSA Handbook for the nature, scale and complexity of its business.

40 Business Principles

40.1 The Society will apply the following principles in the pursuit of its objects:

- 40.1.1 It will conduct its business with integrity.
- 40.1.2 It will conduct its business with due skill, care and diligence.
- 40.1.3 It will take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems.
- 40.1.4 It will maintain adequate financial resources.
- 40.1.5 It will pay due regard to the interests of its customers and treat them fairly.

41 Fidelity Insurance

41.1 The Society will at all times maintain in force a policy of insurance which provides cover against any description of loss suffered or liability incurred by reason of the fraud or other dishonesty of any of its officers or employees.

42 Accounts

42.1 The Society will provide a copy of its audited accounts to members. The accounts will be accompanied by the Committee's assessment of the society's performance and prospects.

We apply for registration of Wessex Community Assets Limited

Name	Signature:
.....	
Address
.....	
.....	
	Date:

Name	Signature:
.....	
Address
.....	
.....	
	Date:

Name	Signature:
.....	
Address
.....	
.....	
	Date:

<i>for</i> Wessex Community Assets Limited (applying for registration under the Industrial and Provident Societies Act 1965)		

.....	Date:	Secretary

Appendix 5: Report of the Financial Mechanisms Project Seminar



Financial Mechanisms Project Seminar Held on 24 January 2008 at Great Bow Wharf in Langport, Somerset Event Report

Introduction by Bob Paterson, the Chair

Bob Paterson introduced the seminar and gave a brief history of reinvestment trusts.

Bob thanked support the Esmée Fairbairn Foundation and the Friends Provident Foundation for their vital support in providing the funding for this project

The financial mechanisms were briefly explained as being model rules to register as an Industrial and Provident Society for the Benefit of the Community, a structure designed to raise relatively small amounts of money at low cost. The project team developed the model bearing in mind that most people who make an investment get advice, so whatever offering is made needs to be acceptable to advisors as well as individual investors.

The project has focussed on diversity, innovation, and future potential partnerships. It has been a working example of the opportunities presented by bringing partners together, in particular it would not have been possible without the input of Robin Keyte of Towers of Taunton, and Malcolm Niekirk of Coffin Mew LLP. Innovation has been shown in gaining enterprise investment tax relief for investors. It has also built on the work of others, Fair Finance were trailblazers with their model for raising low cost share capital.

The Wessex projects - Wessex Community Assets Ltd

Steve Bendle, Director of Wessex Community Assets Ltd (WCA), presented the findings of WCA as a pilot for the financial mechanisms project. The session comprised a slide presentation (see appendix 5.1) and some discussion.

It was explained that WCA was chosen as a pilot as the project team were keen to test the financial mechanisms in a very defined way. The directors of WCA wanted to provide a financial solution for Community Land Trusts in their work developing affordable housing for local people and retaining its affordability in perpetuity. Because planners tie Community Land Trusts to section 106 agreements this leads to problems with borrowing (as lenders are looking for security – and the option to re-possess property if necessary – and planners are looking for retaining affordability and local connection – this might preclude a repossessing lender from selling on the open market).

Steve explained how the WCA fund was intended to engage people in a well known issue (shortage of affordable housing) to help provide a community led financial solution. The issues arising from the launch were discussed (the low level of interest in investing) and possible reasons for this and solutions. It was explained that external events had also had some impact on the launch of the WCA prospectus as the Housing Corporation announced that they would be able to offer funding for Community Land Trusts on the day the prospectus was being finalised, there is more work to be done on how to differentiate between government offers and local ones (and the various costs and benefits of this offer).

The Wessex projects - Ecos Fund Ltd

Charles Couzens, Executive Director of Ecos Homes, presented the experience of Ecos Fund Ltd as a pilot of the new financial mechanisms (see the slide presentation in appendix 5.2).

The innovative structure of Ecos was explained (how it is structured in a such a way as to allow for the raising of finance whilst protecting the ethical principles of the organisation). Ecos specialises in sustainable development, maintaining a close connection between home-life and work-life, whilst developing and protecting assets for the community. The investors it targets are defined as 'light greens', i.e. those with disposable income and concern for the environment. Larger investors have tended to be people Ecos already had a relationship with (demonstrating the importance of maintaining good relationships with your stakeholders).

Ecos develops low carbon homes and workspace, and has linked in with the 'Transition Towns' movement to support activities such as improving car share opportunities. It was also noted how Ecos had been working on making its developments sympathetic with the existing surroundings and the heritage of the area (the homes at Great Bow Wharf mimic the warehouses nearby in their style). Effort had been put into growing Ecos but also the organisation is not staying still and is planning to achieve sustainable code level 5 (a high standard) in their next development (Stawell), and move towards zero carbon.

Ecos Fund Ltd was successful as it was able to offer an attractive rate of return, and it was an immediately understandable concept. The budget for marketing was £5,000 plus staff time (one day per week on marketing). It was noted that a return of £660,000 for a budget of only £5000 was remarkable. The average investment was £2000. Ecos are now planning ahead for future funding, and are seeking a way to keep share offers open – investors need to be made aware of the changing environment.

The Ecos experience indicates that both wide and narrow approaches to seeking investment should be used to attract investors – broad and targeted. 'Broad' approaches were found to bring in investments of £1,000 to £5,000. This led to future targeted marketing to those already investing and can attract second generation investors in future, perhaps prepared to invest much more. Relationships and trust are been built from the initial smaller investment.

The National Picture—Paul Sander-Jackson

Paul Sander-Jackson, Thriving Communities Director at New Economics Foundation, presented a general picture of Community Development Finance Institutions and the challenges they have faced since their inception (see slide presentation in appendix 5.3).

It was explained that Wessex Reinvestment Trust has diversity in its business model, a focus on innovation, and that the Directors bring diverse skills, leading to strength for the organisation. The Community Development Finance sector is diverse in nature and still young - so there is a lack of experience in some areas. There is a question of how it can grow and build on the 'Reinvestment' models, and also how to grow the Financial Mechanisms model.

Some background information was given about the Wessex Reinvestment Society Enterprise Loan Scheme (loans from £500 to £10,000). The original source of funding for this scheme, the Phoenix fund, had some significant drawbacks. It was short-term, given under a use it or lose it policy and so money had to be loaned out too quickly, therefore Wessex, and other Community Development Finance Institutions (CDFIs), were constrained by fast targets.

An observation was raised about a lack of a coherent policy from Government within this sector. There had been a change of funder for CDFIs from the Department of Trade and Industry (DTI) to the Regional Development Agency (RDA) who seem to have a lack of understanding of the sector as experience of the sector has been lost in the changeover. There is a mismatch and CDFIs have struggled to become sustainable, the RDA demand that CDFIs strive for the elusive goal of sustainability, which under current circumstances is unrealistic.

The Wessex group also operates a Home Improvement Loan scheme, this is a dependable part of the business and relatively low risk. Other activities are developing access to property and workspace (partly through Wessex Community Assets) through developing financial mechanisms, supporting Community Land Trusts and the development of other community owned assets. This diversity has helped the Wessex group to continue working towards its aims through turbulent times.

An Investor's Perspective—Robin Keyte and John David

Robin Keyte, an Independent Financial Advisor at Towers of Taunton, delivered a slide presentation (see appendix 5.4) on the development of the financial mechanisms. The mechanism was developed in close contact with the Financial Services Authority (FSA) and also with the invaluable help of Anthony Salt, the company secretary for the Wessex group.

John David, Investment Director at Rathbone Greenbank Investments explained the approach of Rathbone Greenbank to unlisted ethical investments (see slide presentation in appendix 5.5). There is a broad range of investment size and they pro-actively seek green organisations to meet their client's demands. Fund managers have a centralised process and need to meet internal guidelines, it will be useful for organisations seeking to access finance through investment funds to be aware of what these guidelines and processes are.

Plenary Discussion

A query was raised about the potential of unlocking the funds held in personal pension funds. It was mentioned that a Community Land Trust (Stonesfield Community Trust - www.stonesfieldcommunitytrust.org.uk) had been trying to access funds held in Self Investing Personal Pension Schemes (SIPPS).

Robin Keyte responded that Ethical Investment Association (EIA) members have been looking into the possibilities of doing this for two years and that the project team considered this in the financial mechanisms project. Barriers were meant to have been removed from flexibly investing, but this has not happened in practice. The EIA have been insistent and inquisitive but changes need to be made by SIPP administrators. Two SIPP administrators are willing to make 'off piste' investments: Wolanski SIPP (now Alliance Trust - www.alliancetrust.co.uk) and Hornbuckle Mitchell (www.hornbuckle.co.uk - ensure you make contact with the right person to deal with your enquiry). John David also responded to this query, he noted that investors are naturally cautious with pension funds and in his experience are more adventurous investing outside of SIPPS. The key for investors and fund managers is to use diversity to spread risk, there is more interest in social capital venture funds. Charles Couzens noted that earlier some investors in Ecos had done so through pension funds, but these were small self administered pension schemes and therefore had wider flexibility.

A query was raised about Community Land Trusts, how the value of property and land is split and what governance arrangements are recommended.

Bob Paterson responded that there are a range of governance options (including setting up as a Community Interest Company, an Industrial and Provident Society, a Company Limited by Guarantee, or a Charity). The key issue is to ensure that the directors are stewards of the assets in perpetuity. Regarding how land and property is divided, the issue is equity in property. So a property may be worth 60 % of its open market value - according to its build and land costs. There are a number of different methods of disposal, this relates to the relationship between the open market value and costs. If a Community Land Trust offers rental properties then it must consider where it will get the money for the initial outlay of costs. For further information visit www.communitylandtrust.org.uk.

The issue was then raised of how the ideas around the financial mechanisms project can be applied to co-ops. If a community is large enough then the users of an organisation may also be its members, sometimes it may be necessary to issue different classes of shares (to maintain a non conflicting controlled interest).

Malcolm Niekiek responded that the option of a bona fide co-op model rules have not been fully examined to date. Preliminary discussions had been had with the FSA, and this is a planned activity. Different classes of shares should be possible, there will be different issues to work through in finding a path through the Financial Promotions Acts to keep the exemption from extensive due diligence. This will be progressed in 2008.

It was raised that in launching a community share issue it is important to have an effective market, what potential is there for developing an underwriting service to address uncertainty around shares.

Robin Keyte responded that he had met with Mark Campenale of UK Social Investment Forum around this issue to investigate developing a social stock exchange. It is important to develop the market for social investment and to have an exit route. If there was the potential of having transferable or non-transferable shares plus a matched bargain, this would reduce a potential barrier. Bob Paterson noted that CDFIs were not sufficiently capitalised to provide an underwriting service of this kind. A remaining option is to have a cocktail of funding sources (including conventional grants and loans). It will depend on the community how this cocktail works, as it will be dependant on the particular geography, track record and vision of the organisation concerned.

Pat Conaty and Steve Bendle completed some research on mutual home ownership (on Common Ground www.neweconomics.org/gen/z_sys_publicationdetail.aspx?pid=164) which involved devising a group structure where organisations invested in one another. Institutional memory has been lost on mutual investment (as it was more common in the 19th Century when companies called co-partnerships invested in one another and also housing projects). IPSs have the potential to invest in one another, but to date they have not done so. The theory behind this kind of mutual investment was that it was easier to turn to organisations already in the social economy to request investment, this would result in a 'virtuous circle'. A future area of work could be to re-educate the social economy on this re-investment, to re-invent the 19th Century for 21st Century purpose. The financial mechanisms need to bring in private money for social good

with a triple bottom line (financial, social, environmental). The Wessex group is a small organisation but with co-operation a marketplace can be created, new mechanisms are needed to meet a changing external world.

Marketing the prospectuses workshop—Alison Webster, Wessex Reinvestment Trust, and Angela Duignan, Energy 4 All

Unfortunately Angela Duignan was unable to attend the workshop as planned due to unforeseen circumstances, but had produced a slide presentation in advance, so the workshop comprised two slide presentations and a discussion around the points being raised (see appendices 5.6 and 5.7).

Points raised in the discussion were:

- It may be useful to send direct mail to known social investors (lists are available, a loophole had allowed Traidcraft and others to obtain mailing lists of ethical investors, this may no longer be possible)
- It is recommended to identify a strong ideological constituency
- Prospectus should not be too complex and there should be a clear ethical message
- Forming relationships with people who then become investors is important, and marketing needs to be an on-going activity.
- Differentiate between those likely to donate £2000 to £10,000 and those likely to donate £50,000
- The Woodland Trust had run an excellent marketing campaign using charitable fundraising methods - good lessons can be learnt from others.
- Relationships could be initiated via 'road shows'
- Other methods of raising awareness in groups of investors were the 'Association of Business Angels' in the South West, or through 'dragons den' style events.
- Need to grow the overall market perhaps starting with the local area and local interest then building up generally.
- There is a need to study WHY people buy shares. Market research is required to feed into future marketing efforts. There are many different reasons why people buy shares (the Woodland Trust has carried out some research on this subject).
- For professional investors and more professional approach is needed.
- There needs to be consideration of the minimum investment required (for Wessex Community Assets this was £250, it is possible to have a minimum as low as £1 – but having a minimum investment so low may increase administrative costs)
- Some investors, such as some Charitable Trusts and Foundations, and would prefer money being given as grants instead of loans. This may be due to Trustees being risk averse. Loans may be considered too complicated (as opposed to a more simple grant)
- Problems may be had in marketing due to financial returns not being offered at a competitive rate. Ideally, an organisation is recommended to offer a good financial return (within the limitations of its governing document) plus a 'feel good' factor, from social return. Both elements needed for commercial success.
- The length that the share offer is open is relevant. Three months is a short lead time. Time needs to be allowed for investors to understand the product
- Further dialogue is needed with prospective investors, there is groundwork to be done before investment happens
- One reason why the Local Food Links share offer did not raise sufficient capital may have been to the groups being targeted in the marketing. Parents were asked to invest, but they are less likely to have high disposable income than other groups (such as grandparents) strapped for cash.
- Another reason could have been that the staff of Local Food Links Links were busy with operational work, there was no time for marketing the prospectus.
- Advertising may have been too local. The Directors should consider if the net needs to be cast more widely.

The legal models workshop—Malcolm Niekirk and Tim Waldron, Coffin Mew LLP

This seminar comprised a slide presentation (appendix 5.8) and discussion. Key points were:

There are five possible legal structures for social enterprise. Two of the newer forms are:

- Community Interest Companies, which were created to deal with social enterprise and which, while having the features of traditional limited companies, also have asset locks to secure community benefits;
- Charitable Incorporated Organisations, which were given legal substance by the Charities Act 2006, although detailed regulations are still awaited. They are likely to be of little use for social enterprise and are mainly focussed on reducing charity compliance with the Companies Act which is otherwise necessary to obtain limited liability.

Industrial and Provident Societies (IPS) were widely used in the nineteenth century for allotments, working men's clubs, building societies etc and come in two forms a) co-operatives, and, b) for wider community benefit.

The IPS structure was chosen over company limited by guarantee as such companies cannot exist for the benefit of members and cannot raise finance. IPSs are regulated by the Financial Services Authority (FSA) which is anomalous but follows a tidying up process after the Registrar of Friendly Societies was abolished. The FSA is non-governmental body accountable to the Treasury but with powers of enforcement. It has proved to be a light touch regulator and to be open to negotiation about the practical aspects of fund-raising via public share issues.

It is important to comply closely with the FSA regulations in any prospectus which invites the public to subscribe for shares. The trustees and members of the management committee approving the prospectus can be personally liable for losses caused by misleading statements in the prospectus. One of the key obstacles initially in the work done by Coffin Mew was how to minimise the cost of due diligence around the issue of a prospectus. The Financial Services and Markets Act 2000 (FSMA) normally requires an 'authorised person' typically a solicitor or accountant to report on a prospectus, costing from £10,000 upwards. IPSs are in a uniquely privileged position in being able to raise funds from the public without this level of oversight. Higher levels of oversight are not needed because shares in IPSs are non-transferable and are withdrawable

Two models have been drawn up as model rules for Wessex, with and without provision for Enterprise Investment Scheme relief. There is a statutory maximum of £20,000 for any individual investment, but for other IPSs there is no limit. It may be possible to get around this by issuing loan stock for amounts over £20,000, although a loan stock offer would also need a prospectus. The model provides for a six month notice period; there is nothing special about this and this can be amended as required. The rules contain anti-carpet-bagging measures to prevent demutualization. It is important that the application form is signed as a Deed to ensure enforceability of these provisions.

It is important for the directors to satisfy themselves that the contents of the prospectus are accurate and in no way intentionally misleading. The recommended way of doing this is to open a due diligence file and ensure that for every factual statement in the prospectus there is supporting evidence by way of documentation, web references etc. It is recommended that every offer has a closing date. Although this is not statutory it is the best way for the directors to ensure that information in the prospectus is not misleading by virtue of being out-of-date. If it is desired to keep open an offer past the closing date it should be reissued and re-verified. Both new and reissued prospectuses will need to be looked at by lawyers, who will inter alia, be able to confirm that they are exempt from the normal FSMA regulation. Even if the prospectus is unchanged on reissue lawyers should be involved to confirm that there have been no changes in legislation in the intervening period. The simplified procedures for IPSs means that legal costs can be kept down to around £1,000.

Shares may have modest potential interest payments attached to them. Although there are no rules about what is 'modest', rates of up to 9% have been offered. Different classes of shares with different rights are possible although there are few recent examples. Coffin Mew are looking at this at present.

To avoid any problems with extra-territorial securities legislation, it is best to restrict subscriptions to UK resident citizens. Foreign subscribers can be accommodated via nominee investment such as offered by Rathbone Greenbank Investments.

Lastly the model rules are currently drawn up for Community Benefit IPSs but they should be modifiable for use by co-operative IPSs.

Open discussion with the panel

Charles Couzens led this session which was primarily a reflection on the day and an opportunity to raise points that had not been addressed at that point.

It was noted that CDFIs had failed to achieve targets set by government, the event had presented the potential for raising money, demonstrating support for social ventures which could be valuable as part of a package to leverage in other money. There have been difficulties for some organisations in capturing and verifying social benefit, that the mechanisms for measuring social return on investment are not sophisticated – but the issue remains that if an organisation is claiming to do something it should be possible to demonstrate this.

One success can lead to other initiatives, successes build upon each other. It was noted that it was interesting to consider the balance between the needs of investors and the highly regulated world of legal models and the FSA.

In response to a query an explanation was given of how the Enterprise Investment Tax Relief scheme (EIS) works (that it is an offset for investors against income tax paid). The treasury reportedly considers EIS as a technical means to unblock investment rather than part of any larger approach. It was noted that EIS should be considered as another string to an organisation's bow (rather than a main motivator).

One delegate observed that the money markets are experiencing turbulence currently and this may have impact on social investments, John David suggested that when the main money market is in turbulence this will mean more turbulence for uncorrelated markets.

Another observation was that within microfinance the constituency of investors has evolved. The same is likely to occur here as the investor base changes due to developing legitimacy and leverage to bring in new investments.

A municipal bond supported by local communities was suggested as a distinct possibility for the future (they have been used in the past for the purposes of building by Local Authorities). It was felt that this should be advocated for.

Problems in marketing may be due to an awareness problem, perhaps organisations should be reaching out and campaigning. It was considered that it would be helpful for there to be one central resource for all social investments to be promoted (e.g. the 'investing for good' website, or EIRIS have been considering an ethical finance portal). There was a sense that organisations should be joining up more. As government bonds were raised for Northern Rock it would seem possible to do so for social purposes. There needs to be a framework for delivering social objectives and sharing wealth rather than privatising profits and publicising risk – to work locally, but nationally.

It was suggested that in terms of localising, there may be an investment stream coming in from de-carbonising, and perhaps this could be a new role for local government. The possibility of local government underpinning community bonds is a live issue.


Summary by the Chair

Bob Paterson summarised that the financial mechanisms project had pushed the envelope back, now the mechanisms are there to take this work forward.

- It has been 'road-tested', certainly with Ecos Fund Ltd, though less so with Local Food Links Ltd and Wessex Community Assets Ltd.
- The vehicle is robust, it can be replicated and extended
- The clarity of offer is crucial (e.g. the Fordhall Farm concept was picked up by journalists nationally, this was considered key to the success of their offering)
- Pricing is sensitive. Low or no financial return on investment was not found to work (although interestingly it did for Fordhall Farm)
- Good financial return combined with high environmental and social return does work (as found with Ecos Fund Ltd and the experience of Energy 4 All)
- CDFIs are successful, or at least resilient, when focussing on diversity, innovation, partnership and long term experimentation
- There is a need to refine the model. It can be added to. A collegiate approach to sharing and joined up working can be adopted. There is a need to share this information with Foundation East and Cumbria Asset Reinvestment Trust, and extend further within the CDFI family
- The event was considered productive and the environment positive.

Editor's note:


As this report is designed mainly for distribution electronically it has not been possible to reproduce the slide presentations in the sub-appendices in great detail (to maintain a reasonable size of electronic file), if you would like a copy of the presentations to view in more detail please do not hesitate to contact Alison Ward at Wessex Reinvestment Trust (alison.ward@wessexrt.co.uk; 01404 45872).



Wessex Community Assets

Community Land Trusts work by


- bringing people together to tackle a local need such as affordable housing
- securing low cost land
- building homes
- recovering the build cost by
 - selling homes to local people on part-equity basis
 - renting homes to local people and borrowing against the income
- retaining the land and other surplus value for ever



Wessex Community Assets

Next time....?

- seek to find out from few investors what motivated/persuaded them and learn lessons
- return to trust investors
- hope to use word of mouth/direct presentation – secure more funding for undertaking this
- consider open-ended issue
- consider raising funds for specific projects
- consider offering 5% and structuring the loan to be an investment in the CLT's land




Wessex Community Assets

The financial obstacle:

- Value ≈ twice build cost but
 - CLT is new type of body
 - no track record, previous accounts
 - planning agreement (s106) likely to
 - require homes to be affordable in perpetuity
 - limit occupation to "local" people
 - lending for development seen as inherently risky
 - low competition: limited no. lenders interested in development lending

Proposed solution


- Raise funds through WCA
 - the shortage of affordable housing is a well-known issue that people are concerned about
 - loans for building property at well-below value should be seen as inherently low risk
 - funds provided help not just one but a succession of CLTs
 - simpler for CLTs to band together to raise funds via WCA than each raise own money



Wessex Community Assets

Outcome

- ~£10,000 raised (cf minimum target of £500k)
- Potential interest from major charities
- One housing association comments: prefer to lend direct



Wessex Community Assets

Some possible reasons for low response:

- good press/radio exposure: but issue publicised is lack of affordable housing not WCA?
- complex: not investment in a physical asset - land or a wind-farm - but in a fund (request for a business plan)
- low public knowledge of concept of CLT: investors need to read prospectus and understand an idea which is entirely new (cf wind-farm)
- rate of return offered 3.5%: maybe investors need
 - social good; and
 - security; and
 - 5-7% return



Ecos Fund - Investing in a Low Carbon Future

Charles Couzens
Executive Director

Transform places



- Community space created
- Exemplar
- Profit to charity



- Ecos Structure
- Ethical foundations
- Track record
- Growing business
- Prospectus
- Future Strategy

Design for low carbon

- Terrace
- Car share
- Bike parking
- Shared space
- Home working
- River access
- Business space
- Community asset



Ecos Structure



Development company with three classes of shareholder:

- Charity with 10 voting shares
- Fund with block of dividend shares
- Individual shareholders with dividend and capital growth shares



Ethical Foundations



- Triple benefit - community return, financial return, educational return
- South West England
- Build Homes for sale
- Create Sustainable Neighbourhoods
- Residual profits to controlling charity
- 7% annual return to private investors
- Launched Ecos Fund in 2007
- Market = Light Greens
- Design = Contemporary & Traditional



Track Record



- 70% Reduction in CO2
- 50% Recycled Materials
- 50% Reduced Water Use
- Positive Economic Impact
- Healthy Buildings

CABE Building for Life Gold Award
Daily Telegraph What House Gold Award
BRE EcoHomes Excellent Award

Ecos Fund Prospectus

- April to August
- Extended to Nov
- 60 direct investors
- 50 nominee investors
- E-mail, letter to "friends of Ecos"
- Continued inquiries each month



Growing the Business



- Stawell & Bridport - 10 in 2008
- Carhampton - 30 affordable & market
- Merriott - 20 affordable & market
- 60 homes built between 2008 & 2010
- Turnover
 - 07 - £0.8 mill
 - 08 - £1.8 mill
 - 09 - £4.0 mill
 - 10 - £4.4 mill
- 9% annual return to investors
- 4% annual profits

Future Strategy



Homes designed for the Future


- Uncertain energy security
- Peak Oil
- \$100 dollars a barrel
- Climate change guilt & despair
- Growing demand
- Large supply gap
- Conservatively priced
- Investments that grow with the business
- A different breed of developer

Stawell

- Timber frame
- Super insulated - warmcell
- External wood fibre board
- Wood pellet heating
- Solar thermal






- Green roof
- PVs
- Code 5
- Zero carbon for heat



CDFI's – the National Picture

Paul Sander-Jackson
Thriving Communities Director



What is different about Wessex Reinvestment Trust

- Anchoring portfolio with home repairs
- Diversity in business model
- Innovation – land trusts, new financial mechanisms
- Partnerships – owned and driven from “below”





nef

Think and do
Independent
Economics as if people and the planet mattered
Wellbeing as goal, not GDP
Four centres
Centre for Thriving Communities

Future potential for CDFI's


- Wider and stronger partnerships in regeneration
- Strengthened re-investment models
- Development of local carbon currencies
- Opportunities from Social Investment Bank




Nef and Access to Finance



Long track record:

- Financial exclusion
- Social Investment Task Force
- CDFI/CDFA development
- Community Investment Tax Relief
- Banking disclosure
- Social investment infrastructure

Conclusions


- CDFI's at critical stage of development
- CDFI's can do more to help themselves
- Government can do much more to help them

CDFI study 2007-8

2 stage study

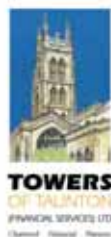
- Sector young, about 80 CDFI's, multiple models
- Positive impact, but not fulfilling expectations
- Stop start funding, short termism, government ADD
- Lack of coherent policy, CITR ineffective, no framework for banking support
- Switch of oversight to RDA's
- Matching business support essential and expensive
- No systematic way of capturing wider benefits
- Elusive goal of sustainability



Wessex Reinvestment Trust Financial Mechanisms Seminar 24 January 2008

An Investee & Investor Perspective

Robin Keyte BSc PhD Chartered Financial Planner
Consultant to WRT Financial Mechanisms Project



3. Potential investment vehicles

- Publicly limited company
- Company limited by shares
- Company limited by guarantee
- Community Interest Company (either of above)
- Industrial & Provident Society
- Partnership
- Limited Liability Partnership
- Open ended – unit trust, OEIC

Investee Perspective

- Who wants to raise this money?
- What features are important?
- What are the potential problems?
- What is the best vehicle?
- Are there any tax benefits?
- What did WRT end up doing?

4. Different types of funding the vehicles can receive

- Grant funding - all of the vehicles can apply for and receive grant funding
- Loan funding - all of the vehicles can apply for and receive loan funding
- Equity investment - all of the vehicles (except co. ltd by guarantee) can solicit equity investment

BUT what about financial promotions & prospectus regulations?

1. Who are we helping to raise investment?

- Social enterprises
- Community land trusts
- Unstructured organisations, often run by volunteers
- Communities of people with very little financial resource
- Amounts sought range from £20,000 to several hundred thousand

5. Financial promotions & prospectus regulations

- The Prospectus Regulations 2005 (SI 2005 1433)
- The Financial Services & Markets Act 2000 (Financial Promotion) Order 2005 (SI 2005 1529)
- Due diligence costs, associated accountancy and legal fees amount to £40,000 or more

2. What should the investment solution look or feel like?

- Affordability – the cost associated with raising investment must be low
- Protection of values – the social and ethical aims must be protected against potential threat from investors
- If possible, application of tax reliefs to enhance the return to the investor

6. Exemptions from regulations

- Our legal counsel has advised:
 - 'Community benefit' Industrial & Provident Society is exempt from Prospectus Regulations because of the nature of the organisation.
 - 'Community benefit' Industrial & Provident Society is exempt from FSMA 2000 (Financial Promotion) Order by virtue of the non-transferability of its withdrawable share capital

7. Introduction to Ben Comm Industrial & Provident Society

- Democratic (one vote per shareholder)
- Non-profit, must be of benefit to persons other than its members / investors
- However it can pay interest to members
- £20,000 maximum investment (unless IPS)

8. Enterprise Investment Scheme (EIS) tax relief

- EIS relief is an income tax reducer for the investor of 20% on the amount of the investment in share capital
- The shareholding must be held for at least 3 years for the relief to be retained
- The trading activities of the enterprise must be 'qualifying' for HMRC purposes:
manufacturing; the provision of services; construction; retail & wholesale distribution; most trades.

9. Two Sets of Rules Needed

- One set of BenCom IPS rules aimed at direct investment into social enterprises and qualifying for EIS relief
- Another set of BenCom IPS rules aimed at onlending and meeting FSA's additional requirements for CDFI type activities

10. Sponsoring Body

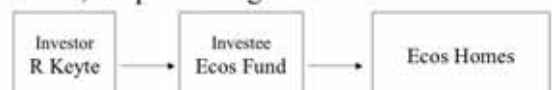
- Expensive to keep adapting someone else's model IPS rules
- WRT took decision to become IPS sponsoring body, and registered 2 sets of model rules with FSA for:
 - enterprise investment aimed at EIS
 - onlending

WRT has also developed Best Practice Guidance Notes and a Code of Practice

Very Brief Overview of Investment Offerings

Case Study 1

- Ecos Fund – a fund used to support Ecos Homes, a social enterprise specialising developments that use sustainable building materials and techniques. Potentially high return, simple message.



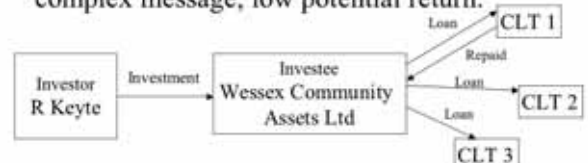
Case Study 2

- Local Food Links Ltd – a social enterprise in Dorset providing locally sourced school meals. EIS relief was granted. Little or no return other than tax relief at 20%.



Case Study 3

- Wessex Community Assets Ltd – The Affordable Homes Fund, which will raise investment and lend it on to community land trusts (or similar) for gap finance. Strong ethics, complex message, low potential return.



Investor Perspective

- What is already there?
- Sources of investors?
- Intermediation?
- What works?

4. What Works

- Tested use of IPS vehicle – no problems
- Tested strong social return versus weak financial return
- Tested complex social proposition versus simple proposition
- Tested attraction of tax relief alone
- Successful project had single core activity, easy to grasp, with track record, and offered potentially a good return (c.f. Windfarm offerings via Energy4All)

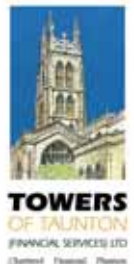
1. Direct social investments

- Non-retail ethical investment, typically higher risk and lower financial return but greater SEE impact / social return
- Larger examples - Café Direct, Ethical Property Company, West Mill Wind Farm*
- Smaller examples - Fair Finance**, Shared Interest, VIRSA

* IPS Co-Op with EIS; ** IPS Ben Comm exempt promo

Any Questions?

Dr R W Keyte – Director
Towers of Taunton (FS) Ltd, Chartered Financial Planners
robin@towersoftaunton.co.uk
www.towersoftaunton3.co.uk



2. Sources of Investor

- Clients of ethically minded IFAs (EIA, UKSIF, Investing for Good)
- Ethical stockbroker fund managers
- Local wealthy individuals
- Respondents to PR / marketing campaign
- Trusts (& charitable foundations?)

3. Intermediation

- Some investments came via EIA members
- Largest investment came from stockbroker fund manager investing as nominee on behalf of their clients (many of whom from EIA IFAs)
- Potential for introductions via accountants and solicitors?

Rathbone Greenbank Investments
www.rathbonegreenbank.com

Rathbone Greenbank Investments

Wessex Reinvestment Trust - Financial Mechanisms Project

Seminar 24th January 2008

An Investor's Perspective
John David

RATHBONES
Established 1992

www.rathbonegreenbank.com
March 6, 2008
Page 3

Rathbone Greenbank Investments

Our Discretionary Investment Management Services

Individually tailored investment portfolios based on:

- **Ethical Requirements**
 - Questionnaire; but combined with broader understanding and feedback
 - All investment activities justified
 - Implications and conflicts discussed
- **Financial Requirements**
 - Risk levels, time frames
 - Income requirements
 - Liquidity, benchmarks

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March 6, 2008
Page 2

Rathbone Greenbank Investments

Rathbone Greenbank Investments

- Specialist ethical investment team within Rathbone Brothers plc, a leading independently owned investment management business
- Ethical investment management for private clients, charities and trusts
- We only manage ethical portfolios
- Dedicated ethical research team
- Over 600 clients, in excess of £300m under management
- Involved in ethical investment since 1992

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Page 5

Rathbone Greenbank Investments

Recent Ethical Research Topics

- Family friendly and work / life balance policies
- Supermarkets and GMOs
- Corporate community investments
- Companies' human rights policies
- Sustainable agriculture and organic food
- Climate Change
- Investment for development

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Page 3

Rathbone Greenbank Investments

Rathbone Brothers plc

- Over £13 billion discretionary funds under management (as at 31 December 2007)
- Quoted on the London Stock Exchange, capitalised at approximately £438 million (as at 14 January 2008)
- Specialises in providing, through its subsidiaries, personalised investment management and wealth management services for private clients and trustees

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Rathbone Greenbank Investments

Investment Process

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Rathbone Greenbank Investments

Our Clients

- Private clients, their trusts, charities
- Individual portfolio size ranges from £50,000 to £9 million
- Investment objectives range from low risk income to high risk capital growth
- All clients have expressed a desire to have their ethical interests and concerns taken into account in the management of their investments – ranging from 'best of sector' approach to the very 'dark green'

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Rathbone Greenbank Investments

Ethical Screening

Through a combination of techniques:

- **Negative screening**
 - Critical for certain key areas
- **Positive selection**
 - Desirable: a focus of small/medium company investments
- **Best of Sector**
 - May be acceptable in order to lower risk and enable engagement
- **Company engagement**
 - A way to help achieve a change
- **Thematic Investment**
 - Very useful on key issues; e.g. Climate Change

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Our Guidelines for Unlisted Investments

- Nature of business
- Size and location
- Risk profile
- Return profile
- Structure of investment
- Investor relationship
- Participation
- Information
- Governance
- Agreement
- Transferability

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Return Profile

- Clients will invest largely through their desire to support a positive ethical / environmental venture
- But there should be some potential for financial reward – at the minimum it should be sufficient to counter the erosive effect of inflation
- Return can be through capital or income

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Nature of Business

- Clear ethical / environmental profile
 - e.g. renewable energy, fair trade, recycling, eco-products or services
- Clear purpose that is readily understood
 - i.e. consumer focused or readily understood business model

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Structure of Investment

- Flexible but:
 - EIS eligible investments are attractive
 - Downside protection is attractive (e.g. convertible preference shares or convertible loan stock)
 - Standard provisions in terms of pre-emption, anti-dilution, capital restructuring, repayments of capital, and appropriate covenants to prevent undermining of our clients' interests should be worked into articles of association or loan instrument

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Size and Location

- Typically our investments range from £100,000 - £500,000
- Should normally be UK based

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Investor Relationship

- Investor will be Rathbone Nominees Ltd.
- Beneficial owners will typically be 50-100 of our clients
- A list of beneficial owners may be supplied on request on a confidential basis

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Risk Profile

- Some revenue generally required
- Profitability / positive operating cash flow must be attainable within a couple of years
- So generally no start up or very early stage companies, speculative investments, or tech companies with long lead time to profitability

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Participation

- We are not in a position to act as lead investor on a private equity deal as we cannot carry out extensive primary due diligence
- Therefore we need to invest in one of two ways:
 - Co-investment – where we are investing alongside or in similar terms to another investor such as a responsible private equity house carrying out extensive due diligence
 - Private placement – where a third party has put together an investment memorandum and proposal and is distributing it to potential interested investors. This third party must not be conflicted (e.g. major investor)

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Information

- Adequate information is required to enable us to assess investments N.B.:
 - Articles and Memorandum of Association
 - Latest report and accounts
 - Legal instrument constituting security
 - Latest management accounts
 - Any material contracts (shareholder agreements/ service agreements)
 - Proof of title to material assets
- If investing as a private placement this information can be summarised in the Placing Memorandum

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Examples of Recent Investments

- ECOS Housing
 - Approx. £500,000 invested
 - Industrial and Provident Society
- Westmill Windfarm Co-Operative Ltd.
 - Approx. £100,000 invested
 - Ordinary shares
- Cafédirect
 - Approx. £250,000 invested
 - Ordinary shares
- City Car Clubs
 - Approx. £200,000 invested
 - Ordinary shares & loan notes
- Golden Lane Housing Bond
 - Approx. £180,000 invested
 - Bond
- Ethical Property Company
 - Approx. £750,000 invested
 - Ordinary shares

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Established 1924

Governance

- We tend to be reluctant to invest in companies where there is a controlling interest or group of interests and our interests are not clearly and strongly aligned with them

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Other interested parties

- Ethical IFAs
- Specialist advisors e.g. P3Capital
- Triodos Bank
- Specialist fund managers e.g. Catalyst Fund Managers
- Wealthy individuals

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Agreement

- We will not be able to invest where we are required to sign any complex agreements which place obligations on shareholders or investors
- The investor would typically be Rathbone Nominees Ltd, and clearly they are extremely reluctant to enter into legal obligations which may harm the Trust company

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Summary

- An area of great interest to us and our clients but must be seen in the context of our overall business – not our primary area of investment
- Any unlisted investment must stand out as an investment that clients wish to support for ethical or environmental reasons
- We cannot become too involved in primary due diligence or legal complexities
- We tend to support only one or two such investments each year
- But do get in contact if you think have something of interest!

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Transferability / Liquidity

- We are unable to accept major limitations on transferability of investments e.g. should a beneficial owner wish to transfer the holding into their own name
- Liquidity in investments is attractive e.g. trading possible on an exchange or matched bargain basis
- We would wish to be kept informed of the price of the investment based on an independent valuation (if not traded publicly)

RATHBONES
Established 1924

Contact Details

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E-mail: john.david@rathbones.com

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RATHBONES
Established 1924



Marketing the Wessex Prospectuses

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P.R.

- Press releases in April about the project in general (and the philosophy of 'slow money')
- Press releases specific to the individual projects at the time of the share offer launches



Ecos Fund Ltd.

- Email alert of approx 1000 key contacts held on file
- Local press coverage
- Direct mail to 50 contacts
- Promotion in Ecos Trust Newsletter (circ. 3000)
- Promotion at talks (including to the Ethical Investment Association)



Results...

- Coverage was good...
- ...but the follow up activities and direct marketing didn't achieve the level of investment that had been expected



Local Food Links Ltd.

- Letters to families of children at local primary schools
- Letters to stakeholders in the local food scene in West Dorset
- Direct mail to Trusts and Foundations (nationally, with an interest in local food)
- Direct mail to businesses in the South West (via Chambers of Commerce)



What was the problem?

- Difficult to communicate concepts (WCA and LFL in particular are not based on concepts already in the public consciousness)
- Hard to get the 'punch line' in (that this is a way of investing in a local project)



Wessex Community Assets Ltd.

- Direct mail to Trusts and Foundations (nationally, with an interest in housing)
- Direct mail to businesses in the South West (via Chambers of Commerce)
- Direct mail to housing associations
- Letters to contacts made at events (e.g. an alternative economics event)
- Letters to the general public in areas where CLTs were emerging (via the CLTs themselves)



- The projects were inexperienced in marketing techniques
- Lack of expertise led to mistakes (e.g. the direct mail was not followed up by phone, letter or email)



- Little account taken of the different needs of different groups within the market (e.g. foundations need a different offering to individuals)
- The lack of tailoring materials to the needs of the market segment meant that messages were probably too complex for individuals not involved in the sector (especially in the case of WCA)



Lessons learned...

- Spend time considering the needs of different groups of the market
- Tailor marketing materials and approaches accordingly
- Keep messages as simple as possible



- Try to get well known people involved in your project (this will heighten awareness and improve trust)
- Ensure your project has the resources (time and money) to devote to marketing
- Marketing is a crucial factor in the success of your project



For further information please contact:

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Development Manager

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Co-operative Capital:
Delivering Community-Owned Green Energy

Energy4All

- Develop carbon neutral energy generation
- Facilitate community ownership in renewable energy projects
- Develop co-ops as a focus for community energy and environmental programmes
- Provide an attractive way for people to invest their money ethically, particularly in rural communities.

The Great Energy Debate

- Fossil fuels are running out
- Supplies increasingly from unstable regions
- Energy prices rocketing upwards
- Fuel poverty
- Fossil fuels produce Greenhouse Gases **yet.....**
- Energy Demand increases 2% pa!

Wind Works

Pros

- safe and economic
- Excellent fuel resource
- No pollution
- 10% RE Target by 2010
- No decommissioning costs
- **Profitable – 10% or more**
- Shift to decentralised generation
- Fashionable



Cons

- **Visual opposition vocalised**
- RE only 4% of UK generation
- High risks pre-consent (£150k)
- High capital costs (£1k/kW installed)
- Specialist skills & management
- Few community owned sites

Baywind Co-op

- First and largest community-owned wind farm in UK owned and run by its members for its members.
- Established 1996 by Swedish developer
- Six wind turbines in Cumbria
- 1,350 Members
- Raised £1.9 m through 2 public share offers
 - Utilities, CND, word of mouth
- Co-op bank loan of £1m to buy out Swedes
- NFFO 3 purchase contract
- Enterprising Solutions Award
- Power sector dominated by large multi nationals due to large capital outlay

Co-op Benefits

- Retain ownership in community
- Return to investors 6% to 8% pa (EIS tax relief available)
- Capital returned at end of project
- One member, one vote
- £1m + to local economy
- Educational visits and grants
- Prevent 6,000 tons of CO2 pa
- Energy Conservation Trust
- Created Energy4All.....



Westmill Wind Farm Co-op

- 5 turbines 100% community owned
- Farmer worked for 13 years to get permission for wind farm – spent £140k at risk
- First wind farm in affluent populated SE England
- Energy4All bought project and est. co-op
- Energy4All launched fsa approved share prospectus
- Forecast 12% p.a. over life of project
- Offer oversubscribed £4.4m raised
- Locals receive priority (£3.2m)
- Additional bank finance (£1.8m)
- Call for further funds from member
- £1.3m raised on low returns
- Operational Spring 2007



Co-operative Structure

- Industrial & Provident Society
- Financial Services & Markets Act (FSA)
- One member one vote
- Seven local board members
- Public Share Issue FSA approved (> £1 million)
- Locals priority (50 miles)
- Marketing £4k advertising spend
- Minimum investment of £250
- Maximum £20,000
- Enterprise Investment Scheme (EIS) 20% tax relief
- £4.4 million raised
- Share offer costs £170k (lawyers £50k)
- Seven month process – labour intensive
- Share Capital Equity: Bank loan Debt is 60:40

Co-operative Capital

- £180k cost to raise £4.4m
- 8000 share prospectus sent out
- 22% Media, 14% Friends, 13% Baywind, 6% FoE
- £2000 average investment
- 1 in 4 uptake of offer
- Trickle down network affect www.westmill.coop



Share and Bond Issues (> £100k) by Social Ent.

Organisation	Date	Structure	Type of Investment	Target to 2006	Amount raised
Tranmere	1994	SH	Share	£1.0m	£1.0m
Shotton Fibres	1994	SH	Share	£1.0m	£1.0m
Shotton	1995	SH	Share	£1.0m	£1.0m
W.D. & H.O. Wills	1997	SH	Share	£1.0m	£1.0m
Shotton	1998	SH	Share	£1.0m	£1.0m
Shotton	1999	SH	Share	£1.0m	£1.0m
Shotton	2000	SH	Share	£1.0m	£1.0m
Shotton	2001	SH	Share	£1.0m	£1.0m
Shotton	2002	SH	Share	£1.0m	£1.0m
Shotton	2003	SH	Share	£1.0m	£1.0m
Shotton	2004	SH	Share	£1.0m	£1.0m
Shotton	2005	SH	Share	£1.0m	£1.0m
Shotton	2006	SH	Share	£1.0m	£1.0m
Shotton	2007	SH	Share	£1.0m	£1.0m
Shotton	2008	SH	Share	£1.0m	£1.0m
Shotton	2009	SH	Share	£1.0m	£1.0m
Shotton	2010	SH	Share	£1.0m	£1.0m
Shotton	2011	SH	Share	£1.0m	£1.0m
Shotton	2012	SH	Share	£1.0m	£1.0m
Shotton	2013	SH	Share	£1.0m	£1.0m
Shotton	2014	SH	Share	£1.0m	£1.0m
Shotton	2015	SH	Share	£1.0m	£1.0m
Shotton	2016	SH	Share	£1.0m	£1.0m
Shotton	2017	SH	Share	£1.0m	£1.0m
Shotton	2018	SH	Share	£1.0m	£1.0m
Shotton	2019	SH	Share	£1.0m	£1.0m
Shotton	2020	SH	Share	£1.0m	£1.0m
Shotton	2021	SH	Share	£1.0m	£1.0m
Shotton	2022	SH	Share	£1.0m	£1.0m
Shotton	2023	SH	Share	£1.0m	£1.0m
Shotton	2024	SH	Share	£1.0m	£1.0m
Shotton	2025	SH	Share	£1.0m	£1.0m
Shotton	2026	SH	Share	£1.0m	£1.0m
Shotton	2027	SH	Share	£1.0m	£1.0m
Shotton	2028	SH	Share	£1.0m	£1.0m
Shotton	2029	SH	Share	£1.0m	£1.0m
Shotton	2030	SH	Share	£1.0m	£1.0m

1984-2003
Co-operative
Capital
Source

Findhorn Eco Village

- Well-established spiritual community near Inverness
- Existing 75kW turbine
- Energy4All secured loan
- 3 X 225kW second-hand turbines from Denmark
- Community >75% self-sufficient in power
- Eco houses and high energy efficiency stds
- Private wires scheme
- Operational March 2006



Ads and Events

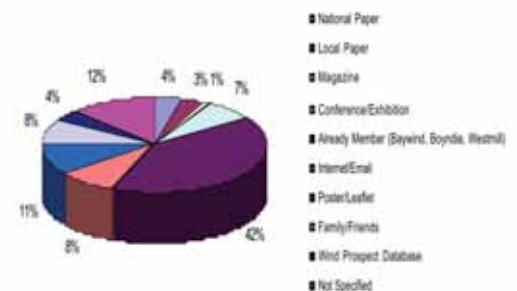
The following were dates in which advertising appeared/took place:

- 30/07/06 - Vine House Open Day
- 07/10/06 - East of England Autumn Show
- 09/11/06 - Lincolnshire Co-op meeting
- Oct/Nov - England Marketing posted leaflets/posters to their contacts
- 15/02/07 - Letters/posters sent to WI's and Parishes
- April/May - Waterside Garden Centre Advert
- 24/03/07 - Open Day @ NW Farm
- 23/04/07 - Deeping Eco Weekend
- 25/04/07 - Renewable Energy Day
- May - Esprie Co-op Mag
- 26/05/07 - Open Day @ NW Farm
- 16/06/07 - Green Energy Week, Warboys
- August - Energy4All Newsletter posted to all current members
- 16/09/07 - Open Day @ NW Farm
- Oct - Large advertising campaign in numerous local papers
- 05/10/07 - Lincoln Open Day
- 13/10/07 - Open Day @ NW Farm
- 18/11/07 - Large Advert placed in the Independent paper

Boyndie Co-op

- Seven WTG on old WW2 airfield.
- Energy4All negotiated royalty share for locals with Falck.
- Co-op launched in May 2006.
- Raised £0.75m locally
- Fishing and farming main income
- Support from Scottish Co-op
- 95% raised in Aberdeenshire!
- Local board and paper support

Investors Where they heard.



Fens Green Power Co-op



- Wind Prospect (developer)
- Two 2 MW Repower turbines
- Co-op launch Oct 2007
- Supplementary SP
- Support from Linc Co-op
- Controversial noise issue
- Good local coverage
- Raised £2.67m
- Extended share offer
 - Royal mail strike
- 40% local

The Way Forward

- Climate change and energy issues need urgent action
- Enormous support from public for sustainable development - a call a day enquiry rate
- People want to support good innovative causes
- Ethical investment growing market
- Wind and other renewables essential
- UK not geared to community ownership of power
- Barriers of timescales, professional skills, financial risks and capital needs can be resolved
- Energy4All has ambitious programme of 3 launches p.a.
- Potential for generic energy co-op to ensure risk funding
- PR strategy next on agenda of Energy4All
- Co-ops not the only structure but a fair one

Community Wind ...



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Tel: 01229 821028
www.energy4all.co.uk



...Positive Generation

Sub Appendix 5.8 – Coffin Mew slides

Legal models

Low cost share capital
for social enterprises
Legal models

Presented by
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&
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Solicitor



Legal models

- Part 1 – overview
legal structures for social enterprise
Tim Waldron
- Part 2 – the Wessex model
low cost share issues
Malcolm Niekirk
- Part 3 – discussion



Legal models – part 1 - overview



Legal models – part 2 – Wessex



Legal models – part 2 – Wessex

- u The law
- u The structure
- u The model rules
- u The prospectus procedure
- u The constraints



Legal models – part 2 – Wessex

- u The law
 - Policy
 - Regulator
 - Consequences of non-compliance
 - Civil
 - Injunctions
 - Fines
 - Criminal
 - Fines
 - Imprisonment



Legal models – part 2 – Wessex

- u The law
 - Policy
 - Regulator
 - Consequences of non-compliance
 - Primary legislation
 - Secondary legislation
 - Rules
 - Common law



Legal models – part 2 – Wessex

- u The law
 - Policy
 - Regulator
 - Consequences of non-compliance
 - Primary legislation
 - Financial Services and Markets Act 2000 (FSMA)
 - Issuing shares needs FSA authority, unless exempted
 - If exempted, the prospectus rules may apply
 - If the prospectus rules apply, an authorised person may have to approve your prospectus
 - Publicising a share issue needs approval from an authorised person, unless exempted
 - Industrial and Provident Societies Act 1965 (IPSA)
 - Makes the FSA the registrar for an IPS



Legal models – part 2 – Wessex

- u The law
 - Policy
 - Maintain confidence in the UK financial system
 - Promote public understanding of the UK financial system
 - Appropriate degree of consumer protection
 - Reduce financial crime
 - Are the shares safe?
 - Will you keep your promises to your investors?
 - Will this offer an opportunity to criminals?



Legal models – part 2 – Wessex

- u The law
 - Policy
 - Regulator
 - Consequences of non-compliance
 - Primary legislation
 - Secondary legislation
 - Financial Services and Markets Act 2000 (Exemption) Order 2001 (SI2001/1201)
 - Financial Services and Markets Act 2000 (Regulated Activities) Order 2000 (SI2001/544)
 - Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (SI 2005 No1529)
 - the investment services directive (repealed), Council Directive 93/22/EEC



Legal models – part 2 – Wessex

- u The law
 - Policy
 - Regulator
 - FSA (Financial Services Authority)
 - Non-governmental body
 - Statutory authority
 - Self-funding
 - Accountable to Treasury Ministers
 - Authorises financial services businesses
 - Sets standards for financial services businesses
 - Legal enforcement
 - Registrar of mutual societies (including IPS's)



Legal models – part 2 – Wessex

- u The law
 - Policy
 - Regulator
 - Consequences of non-compliance
 - Primary legislation
 - Secondary legislation
 - Rules
 - FSA Handbook
 - <http://www.fsa.gov.uk/Pages/handbook/>



Legal models – part 2 – Wessex

- u The law
 - Policy
 - Regulator
 - Consequences of non-compliance
 - Primary legislation
 - Secondary legislation
 - Rules
 - Common law
 - Misrepresentation
 - Misleading by carelessness
 - Fraud
 - Deliberate misleading



Legal models – part 2 – Wessex

- u The law
- u The structure
- u The model rules
- u The prospectus procedure
- u The constraints
 - Currently, the business must:
 - Be a ben com IPS
 - Issue non-transferable shares
 - Issue withdrawable shares
 - Get the prospectus checked to ensure it is exempt
 - Use the model rules
 - Put the board through a verification exercise



Legal models – part 2 – Wessex

- u The law
- u The structure
 - The Wessex model issues shares that are:
 - Withdrawable
 - Non-transferable
 - Issued by a ben com IPS
 - This follows closely specific exemptions from the legislation
 - Minimal statutory disclosures required
 - Common law rules still apply



Legal models – part 3 – Questions!

- u Over to you...



Legal models – part 2 – Wessex

- u The law
- u The structure
- u The model rules
 - Versions for EIS relief
 - Non-EIS version
 - Statutory £20k cap on shareholding
 - Withdrawable on 6 months notice
 - Anti-carpet-bagging clauses
 - Members not entitled to surplus on dissolution
 - One member, one vote
 - Modest interest payments allowed
 - Non-transferable shares
 - Financial promotion must comply with a voluntary code



Legal models

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Legal models – part 2 – Wessex

- u The law
- u The structure
- u The model rules
- u The prospectus procedure
 - Comply with the voluntary code
 - Get advice that the prospectus is exempt from FSMA regulation
 - Verification exercise (normally self-administered)
 - Closing date
 - Overseas investors



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