

Community Share and Bond Issues

The sharpest tool in the box



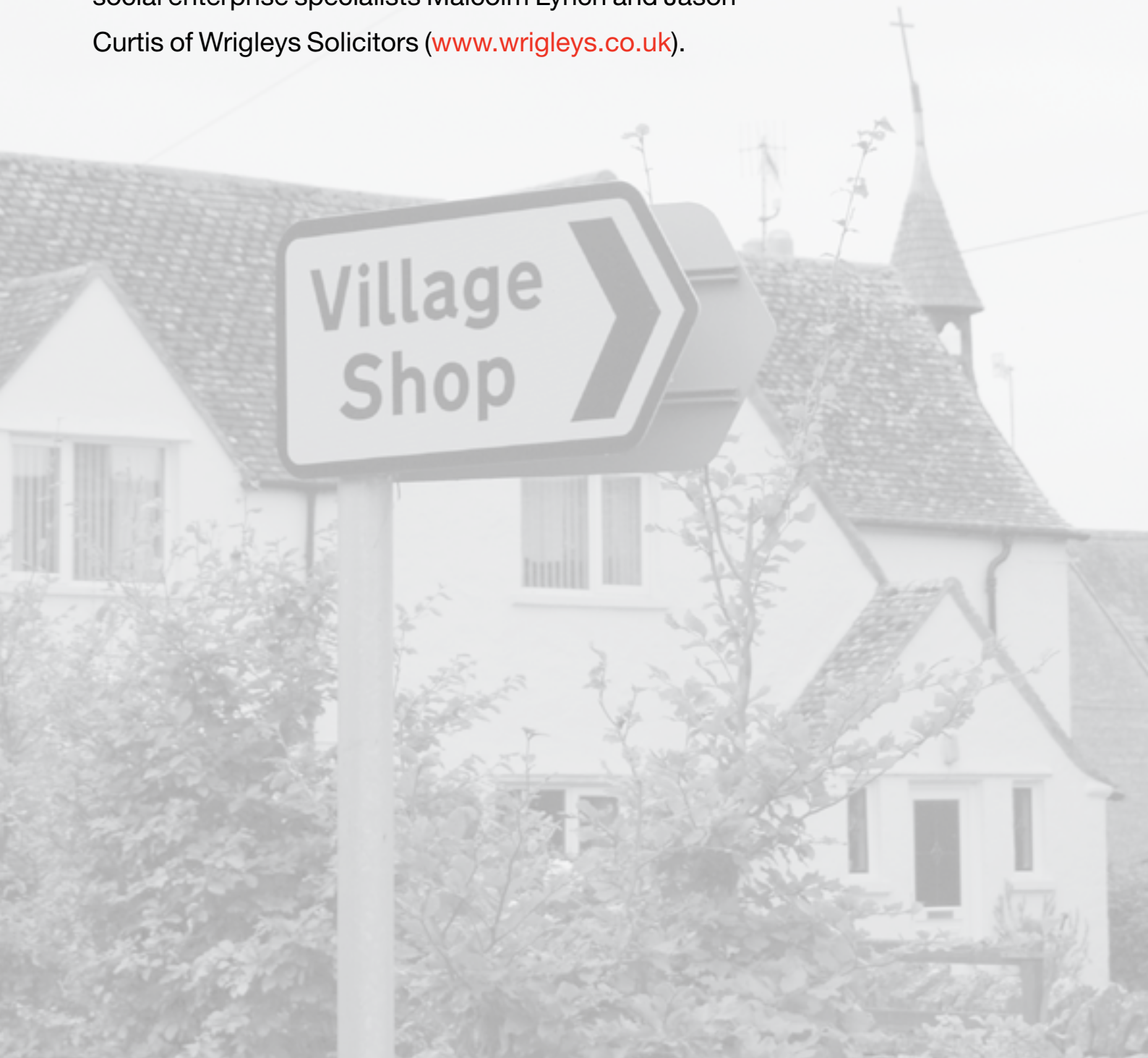
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Introduction

This work was commissioned by the Development Trusts Association (DTA) and the Adventure Capital Fund (ACF) to encourage community enterprises to take advantage of what remains a largely untapped source of funding.

The DTA and ACF have a particular focus on community enterprises – not-for-private profit enterprises whose mission includes a sense of place – but the advice could equally apply to many social enterprises. Development trusts are community enterprises that strive to make a sustainable impact in their communities across a broad range of economic social, environmental and cultural issues, and many of their activities can be seen as ‘social enterprises’.

If you do a UK Google search on ‘share issue’ the search engine will come up with about 64,000 results. Put ‘community’ at the front and it comes up with just two.

However, the picture is not as bleak as these figures suggest, for instance the majority of the UK’s 150 community-owned shops have issued shares. Yet, as a mechanism for raising money for community or co-operatively owned businesses, share issues are underused.

This short paper will suggest that community share or bond issues can be straightforward and affordable and bring benefits beyond raising cheap money.

We will look at:

- ◆ what shares are
- ◆ the benefits of a share issue
- ◆ how to organise one
- ◆ the legal implications
- ◆ examples – large and small
- ◆ the documentation required.

The paper primarily addresses the needs of local organisations seeking to raise less than £1 million from investors willing to accept modest financial and high social returns. We do not focus on large, commercial-type issues or venture capital.

Ideally, organisations should consider the potential of share issues when establishing their legal structure. But once established, there is still the potential of a share issue in a community enterprise. Even if your company structure currently appears to be a barrier, changes to its legal structure may make a share issue possible.

What is a share or bond issue?

A share issue is an offer for shares by a company or an industrial and provident society (IPS). Bond issues or loan stock issues (the terms are interchangeable) are offers to several people to lend money to an organisation on similar terms for several years. It is long-term debt capital. Share issues are a way of obtaining long-term risk capital. For reasons described under 'Making it legal', the majority of share issues made by community enterprises have been by IPSs, some of which were charitable.

An IPS (for further information see 'Making it legal') can ask any individual or limited company to invest up to £20,000 each in the share capital of the IPS to pursue its objectives. However many shares they purchase, those people will still only have one vote in the society.

Investors have to become members of the IPS; the conditions surrounding their investment will normally be presented in a simple invitation to invest. This will include an outline of the business case, the dividend the investor can expect to receive, the risk in the investment and the terms on which they can withdraw their money. The would-be investor then simply pays the IPS and receives a share certificate.

The great advantage of shares over other forms of finance is that if the shares carry limited rights to withdrawal or are transferable there is no obligation to repay them. Dividends are paid out of profits: no profits, no dividend.

The main difference between a share and a bond issue is that, in the latter case, there is a commitment to repay the amount invested after a number of years. While this makes it easier to raise the money in the first place, the business plan has to show the ability to repay the loans (or raise another loan to repay the initial investors) within the stated time.

The benefits

A share issue not only raises affordable capital, it also turns the dry activity of raising money into a campaign amongst supporters.

If your business proposal is unable to offer security on a property, or perhaps your development trust does not have a management track record, even a community development finance institution (CDFI) may have to charge around 10% interest on a loan, whereas a share or bond issue may carry no interest/dividend in the early years.

Citylife (www.citylifeld.org), which issues public bonds to raise money for social projects, has found that supportive investors are content to receive no interest on their money for up to around five years. At that point it seems investors become concerned about the erosion of the value of their money due to inflation.

Just as important a reason for a share issue is that lending organisations, which do not usually cover all financial requirements, are keen to see the local commitment evidenced by a share issue.

Even if you feel grants may cover all your investment needs, a share issue may be worthwhile. If well organised, a share issue can attract a fresh layer of volunteers with new ideas, gain press attention and act as a means of involving local businesses and support agencies. Share income is unrestricted money, not tied to the achievement of the outputs so often attached to grants – and you do not have to wait six months for a result!

Working with a solicitor and existing share issue templates, the cost of obtaining legal advice on the offer document should be in the region of £2500 (plus printing and other costs associated with producing the offer document). If your organisation is not an IPS (perhaps a company limited by guarantee), you can consider converting to IPS status, or establish a parallel IPS that can issue shares and transfer funds to your existing organisation (more information is given under 'Making it legal').

A share issue is not guaranteed to succeed. The outcome will depend on:

- ◆ the strength of the business case
- ◆ the level of financial return and security that can be offered
- ◆ the passion that can be generated among potential supporters/investors for the objectives of the issue
- ◆ the quality of planning and campaigning around the share issue.

Reasons for success or failure won't always be clear. The push to achieve a community-owned shop in Shoreham (www.shorehamvillagestore.co.uk) started with a large and motivated meeting in 2006 of 170 people around the closure of the existing shop. Of the 100 who filled in a questionnaire, 91 wanted a community-run shop and 49 volunteered to work in it. Yet the money did not come in to purchase the shop and the flat above. Perhaps the £500,000 required was seen as too high a target.

The result was fairly novel. Seven residents clubbed together to form a limited liability partnership to purchase the building with a view to selling their shares to community investors in the future, and the shop reopened in August 2007. The Shoreham case shows that, even where a share issue has not succeeded, raising the community enterprise option can produce a solution.

It could be argued that share issues are for the middle classes, whereas community enterprise is often associated with poor areas where people have little cash, making a share issue inappropriate.

It is true that the sums raised in such areas might be less and the minimum investment required lower, but a share issue remains an important way of bringing a community behind a project. It can also act as a hook to attract wealthier supporters living outside the area. Sherwood Energy Village used a share issue to gain pump priming of around £50,000 to bridge a gap between grant funding and rental income during its early days. Investors put in as little as £50 each (www.sev.org.uk).

VIRSA (www.virsa.org), which supports village communities wanting to establish community shops, often recommends a share issue of £5 to as many villagers as can be reached, to give people a personal stake in a project and bring them into the communication system. More significant income is then raised through a bond issue targeted at those who have some savings.

Organising a share issue

Business planning

There is no substitute for first establishing a strong business case. No one will want to put money into an enterprise likely to fail, so the usual string of business planning questions needs to be answered:

- ◆ What is the market for your services and what pattern of sales growth can you expect?
- ◆ What will your customers pay and what profit margin will that produce?
- ◆ How much will your overheads be?
- ◆ What are the capital assets and how much cash will you need before sales start to cover costs?
- ◆ What are the risks in the proposal?
- ◆ What is the first opportunity for investors to sell their shares?

And so on.

As far as possible, some level of commitment should already have been gained from other financial backers of the project to give potential shareholders confidence.

If property is involved, any ownership covenants, asset locks or other liabilities that may affect the value of the building that can be offered as security need to be clear. For refurbishment or new-build proposals, a professional team consisting of a quantity surveyor, architect and mechanical and electrical engineers needs to have done the drawings and cost estimates, while facility management companies can help estimate running costs. This early work will normally be done free in anticipation of gaining the professional fees (10 to 15% of project costs) if the work goes ahead. (For further information see DTA publications – particularly *To Have and To Hold*.)

The terms and conditions of the investment also need to fit with any proposed external lender, who may not wish to see investors repaid until some of their borrowing has been repaid.

A suitable solicitor should be engaged from the outset to advise on company structure, governance arrangements and the most appropriate vehicle for a share issue. While solicitors make their recommendations with a view to 'worst case' possibilities, and so can be perceived as making life unnecessarily complicated, an experienced solicitor will be able to advise on how any existing company or new structure can fit with the objective of raising share capital.

A community enterprise may not have the time or skills to do all the business planning work. In such cases it is often possible to obtain money for feasibility/consulting support as part of a loan package from the Adventure Capital Fund (www.adventurecapitalfund.org.uk), Futurebuilders (www.futurebuilders-england.org.uk), Venturesome (www.cafonline.org), local authority neighbourhood management structures or development agency social enterprise schemes. Early donations can also fund the development stages of a share issue.

At the end of the business planning process you should be able to give investors a clear idea of:

- ◆ what you will do and why you will succeed
- ◆ the money you need and who is providing it
- ◆ the dividend you expect to be able to pay
- ◆ the minimum investment required per individual (a compromise between minimising bureaucracy and maximising involvement)
- ◆ the risks of the investment
- ◆ how long people will need to tie up their money in the investment.

Building support

In reality, building support and creating a business plan will go hand in hand. The first thing to do is to work out who your potential investors are. For the Centre for Alternative Technology, it was environmentalists nationwide; a community centre may target local residents or a shop its customers. Whatever the make-up, it will be necessary to devise a marketing plan that will capture people's imagination and make them feel they can make a difference.

Different audiences will require different strategies.

Board and staff members

Before even starting on the public, staff and management need to be in agreement with the need for the share issue and convinced about the strength of the business case. They will be the primary sales force.

Residents

Prepare for a public meeting. Leaflet the area, visit voluntary and community groups, create interesting handouts and visuals and arrange for someone to speak who has been successful in a similar field. Form a project group around the proposal, and put out a call for ideas and volunteers. Ask for share issue pledges even before the formal launch, keep a database of potential investors, think of ways of keeping people informed and keep the project management tight.

Businesses

Businesses, as well as individuals, can invest in IPS share issues. It can be an ideal way of getting them involved, doing their bit for the community.

Councillors/regeneration agencies/the media

Everyone loves people 'doing it for themselves' – and share issues are just that. The political and institutional support offered can be much greater than for grant-generated growth.

Ethical investors

In 2007 the Ethical Investment Research service estimated there were more than 90 ethical investment funds and that some £480 billion of assets were subjected to ethical scrutiny. While these may be light-touch ethics (for example, no investment in defence and tobacco industries), there is evidence of a growing level of direct investment into social enterprises.

For example, Jim Brown (*The Guardian*, September 12 2007) reported that ethical investors have already invested more than £50 million in UK social enterprises, two-thirds in the last five years.

Finding these investors is not always easy. Local residents and registered supporters can be tracked down, but there is no obvious meeting place for the ethical investor and the issuer of shares. The Ethical Investors Association (www.ethicalinvestment.org.uk) is a good place to start: it was one of its members that gathered investors for the ECOS share issue (see page 17).

If an ethical financial adviser is going to help find investors, certain conditions will apply:

- ◆ They will need time.
- ◆ There should be some certainty of a modest return.
- ◆ The investment should be as risk free as possible and the money should be withdrawable.

Individual ethical financial advisers might help, but there is a clear need for intermediary bodies that can channel investment to social enterprise.

Making it legal

What follows is only a guide; it is essential to make contact with a solicitor experienced in charity and IPS law and share issues or at least a Financial Services Authority (FSA) approved sponsoring body, such as Co-operatives UK's legal section (www.cooperatives-uk.coop), Wessex Reinvestment Trust (www.wessexrt.co.uk) or Land for People Central Community Land Trust (www.landforpeople.co.uk).

These are some of the essential legal points:

- 1** The Companies Acts prevent private companies limited by shares (including community interest companies (CICs) limited by shares) from offering shares to the public. (The public is roughly construed as no more than 50 people.) Only public companies limited by shares, which require a minimum of £50,000 in share capital, can offer shares to the public.
- 2** The Companies Acts permit companies limited by guarantee (including CICs) to offer bonds to the public.
- 3** The Industrial and Provident Societies Acts (IPS Acts) permit co-operative societies (for-profit organisations) and benefit of the community societies (bencoms – not-for-profit) to offer shares or bonds to the public.
- 4** Written and verbal offers for shares and bonds are known as 'financial promotions' under the Financial Services and Markets Act, which governs the content of offers. Because of the – proper – concern that people do not invest unwisely, offers for shares and bonds usually have to be approved or issued by a person regulated by the FSA. This requirement generally does not apply to social investment, particularly social investment in an IPS.
- 5** This social investment exemption generally requires that the shares or bonds that are issued have no rights of transfer, but simply rights of withdrawal (redemption).
- 6** An IPS (bencom) can undertake a public share issue with the maximum investment for each individual/business being £20,000. The shares must be withdrawable. It is often important that directors generally suspend rights of withdrawal for the first few years (for example in order to repay a loan made to the society) and reserve, in the bencom's rules, the right to suspend withdrawal indefinitely. An IPS (bencom) can also issue bonds. There is no limit on the amount which an investor may invest in a bond.
- 7** A company limited by guarantee cannot issue shares. It may issue bonds but offers for the bonds must be approved unless they fall within a special category of offers.
- 8** The special categories of offers of shares or bonds which can be used by companies limited by shares, companies limited by guarantee and IPSs are offers to certain high net worth individuals (generally people with assets, not including their own dwelling, of more than £100,000). Alternatively, they can be offered to a common interest group of a company – in other words the members of a company established for not-for-profit purposes. In this case any offer document must contain special wording.

- 9 An organisation that is a company limited by guarantee might consider setting up an IPS that could undertake a share issue and transfer the funds raised to the company limited by guarantee. However, if the society is a bencom, it must be carrying on an activity in its own right. It could not be registered if it was set up purely to issue shares. A bencom can be registered as a charity with HM Revenue and Customs and, from 2008, will have to register with the Charity Commission if its annual income is more than £100,000.
- 10 If a charity has raised money through a bond or share issue it has to exercise caution in investing that money in a trading subsidiary.
- 11 The easiest and cheapest way to establish an IPS is through an IPS sponsor of model rules. Details of sponsors can be found on the FSA website (www.fsa.gov.uk/pages/doing/small_firms/msr/societies/index.shtml).

Perhaps the most important conclusion from the above is that **whatever your current legal form, changes can be made or new structures created that allow you to undertake a share issue or bond issue**. This may be by converting a company limited by guarantee or a company limited by shares to an IPS (involving a two-page form and £700-£1000 to register the memorandum and articles) or, indeed, establishing a new IPS or trading arm for the same cost. Conversion of a charitable company into an IPS would require the consent of the Charity Commission and may not be so easy to achieve.

When making such changes, financial and governance objectives need to mesh. There is sometimes a mistaken belief that an IPS structure has to be open to a mass membership and the board of directors must be elected by one-member, one-vote. The form is, in fact, very flexible, and the make-up of membership and the board, and the relationship between companies, can be tailored to need.

It is important to have an authorised person or solicitor review the wording of any share or bond issue to protect directors against being sued for providing misleading information. They will be particularly keen to see that claims around financial projections and risks are reasonable. The cost of such a review for a community enterprise share or bond issue is likely to be around £2500.

Other issues

Tax relief

A way to stimulate interest in a share issue is to register under the Enterprise Investment Scheme (EIS) (www.hmrc.gov.uk/eis/guidance.pdf). This gives investors one-off tax relief on 20% of their investment – equivalent to 8% interest for a top rate tax-payer.

The significant conditions are that:

- ◆ The company or IPS cannot be a subsidiary or have assets of more than £7 million. The maximum annual investment in any company of shares qualifying for the EIS is £2 million.
- ◆ The maximum a single investor can invest and claim relief on is £400,000.
- ◆ The investor, who can only be an individual, has to hold the shares for at least three years.
- ◆ Only transferable shares will qualify. Withdrawable shares do not qualify for EIS relief.

Because the shares to be issued are transferable shares, it is probable that any offer document will have to be approved by a person regulated by the FSA or that an FSA-approved prospectus will be required. For these reasons issues of shares that qualify for EIS relief are likely to be for larger share offers (for, say, more than £1 million).

Trading shares

More people would be willing to buy shares if they knew they could easily take their money out when they needed it. Though IPS shares can be withdrawn, the board of directors should always reserve the right to decide that, if the company cannot afford to repay the investor, withdrawal will not be permitted.

One answer is a market in transferable shares where ethical shares can be traded – an ethical stock exchange. The government, through the Office of the Third Sector, is supporting research into a trading exchange for social enterprise shares.

However, for the moment, all that can be done for share issues above a minimum size (certainly 200 shareholders), is to register them with a broker that attempts to match sellers and buyers. One such company is Brewin Dolphin (www.brewindolphin.co.uk), which handles the shares of Cafédirect plc and the Ethical Property Company plc.

If you are not going to be paying someone to handle your share register, you will need to take into account staff time absorbed in issuing certificates and dealing with new investors and those seeking to withdraw.

Successful share issues

Major successes

Community, or perhaps more accurately ethical, share issues have their own small hall of fame.

- ◆ **The Baywind Energy Co-operative** (www.baywind.co.uk) is a co-operative IPS formed in 1996 to promote community-owned generation of renewable energy. The first share issue in that year raised £1.2 million to buy two turbines at the Harlock Hill wind farm in Cumbria. Two years later, a second share issue raised a further £670,000 to buy another turbine.

Preference is given to local residents and the minimum investment is £300. Part of the investment's attraction is the competitive interest rate of over 5%, which also attracts one-off tax relief in the first year (equivalent to an additional 4% return for a basic rate tax-payer).

There are now another four community energy co-ops, all of which use share issues to finance their growth. They are coordinated by Energy4All (www.energy4all.co.uk).

- ◆ **Cafédirect plc** (www.cafedirect.co.uk), the UK's largest Fairtrade hot drinks company, raised over £4 million in 2004, with more than 16,000 people applying for a share prospectus and each investment averaging about £1000.
- ◆ **The Centre for Alternative Technology plc** (CAT) (www.cat.org.uk) raised £1 million in 1989 to finance the building of a water-powered cliff railway that improved site accessibility and helped increase visitor numbers in its first year to more than 100,000.

A dividend has never been paid on the shares, though CAT tries to match those wishing to buy and sell shares, so there is some way of withdrawing your money. The appeal of the share issue was to give members of the public an opportunity to invest in practical and environmental solutions.

- ◆ **The Ethical Property Company plc** (www.ethicalproperty.co.uk) buys properties and develops them as managed workspaces for social change organisations. It now has 12 such centres. It raised £1.72 million in a share issue in 1999 and £4.2 million in 2002. Another issue is planned in 2008. There are some 1200 shareholders investing from as little as £300 and a dividend of 3% has normally been paid.
- ◆ **The Phone Co-op** (www.thephone.coop) was founded in 1998 and delivers a full range of communication services, from line rental to an internet server. It is a co-operative IPS owned by its 15,000 members, 6700 of whom have bought shares in the company to a value of £1.6 million. This provides valuable cash to fund the business's rapid expansion. The company pays an average dividend of more than 5% (the Co-op calls it interest) on the shares, plus a small dividend (around 2%) related to the amount spent.

The Phone Co-op is atypical in the size of its membership, but shows the potential of turning users into investors.

Smaller successes

With the exception of the Phone Co-op, the share issues outlined above went through the full public offering process, costing many thousands of pounds in marketing and professional fees. Not all are IPSs, indeed Cafédirect and the Ethical Property Company are public limited companies.

This paper is most interested in local initiatives undertaken at low cost within the IPS legislation, which draw as much on local enthusiasm as on providing a competitive return to ethical investors. To echo George Monbiot's comments when he bought Ethical Property Company shares:

“Most ‘ethical investments’ work on the principle of negative ethics: the best offer is that you are not investing in the most obviously dodgy companies. This is one of the few which allows you actively to support the causes you believe in.”

- ◆ **Titchmarsh Village Shop** used a share issue as a means of involving people rather than raising money. It adopted an IPS constitution and, in a village of 230 houses, sold 120 £5 shares. The bulk of the £100,000 the shop needed came in grants, with £7000 coming from fundraising events. In something of a marketing coup, Alan Titchmarsh was booked to open the shop in autumn 2007. The shop may go back to raise more money from the members at a later stage. (Contact Jane Teagre – jane.teagre@mac.com.)
- ◆ On a slightly larger scale, the villagers of **Hesket**, Cumbria, (www.theoldcrownpub.co.uk) have twice shown the power of community enterprise. They formed co-operatives to buy out the local brewery (in 1999) and the Old Crown Pub (2003). The co-operatives have 58 and 120 members respectively.

The co-operators chose to have a high minimum investment – £1500 in the case of the brewery – which partly reflected that the Lake District village has some well-off residents and regular visitors. Both enterprises are profitable and expanding. The brewery bought completely new plant in 2004, starting bottling in 2006 and will shortly be opening a visitor centre (www.hesketbrewery.co.uk).

- ◆ **Ekopia** in Findhorn, North East Scotland (www.ekopia.findhorn.com), shows that having a local emphasis does not have to mean small-scale. This is an IPS community benefit society with the objective of supporting rural regeneration. Ekopia is also a serial share issuer and has raised from friends and supporters:

- for the Phoenix community centre £500,000
- for Findhorn Wind Park £600,000
- for an ecovillage a target of £200,000?

Of course Findhorn is iconic in the ecological movement, and has a large supporter base to which it can appeal. The sums involved may be more than most community enterprises can aspire to, but Ekopia has some interesting structural features to learn from.

To simplify the investment process and minimise bureaucracy it is increasingly becoming an investment agency – raising share capital to invest in different Findhorn projects. Development trusts with a respected track record could play the same role for local community business ventures.

- ◆ **Headingley Development Trust (HDT)** (www.headingleydevelopmenttrust.org.uk) is a young trust, founded in 2005 as a bencom IPS, which dived straight into the use of share issues – with interesting results.

The first issue was to help fund the conversion of a closed local primary school into Headingley Enterprise and Arts Centre (HEART). The total financial package was to be £1.3 million: the share issue would make up £200,000; the rest would come from grants and loans. Keeping the school in community ownership was a central ambition for the Trust from the outset and the idea was heavily promoted to its rapidly growing membership (around 700 in September 2007). The Trust put effort into both creating a convincing business plan that showed a good surplus in year 3 and winning political support.

At the time of writing, there is much unfinished business within this project, but in the first three months, the share issue had raised £50,000 from individual investors (work to raise £100,000 from local businesses and institutions was at an early stage).

Shortly after the HEART issue, HDT's directors established an independent IPS, the Natural Food Store (a bona fide co-operative), to undertake a community buyout of a local food store that was threatened with sale and/or closure. A project group was formed, a business plan developed, public meetings held and membership investment pledges sought. In little more than two months of the share issue launch, £100,000 had been raised from over 200 members, against a target of £90,000 (the total cost of the business purchase and refurbishment was about £120,000 with the remainder coming from loans).

Why the seemingly different performance of the two issues?

- The shop was an existing profitable business. It had a customer base of around 1000, who were potential investors (and will generate a supply of potential investors, which will allow shareholders to withdraw their money). People were worried about losing the shop and could easily see how their own efforts could achieve a community buyout. In contrast, HEART is a new idea; its commercial success cannot be assured. It may not happen because the share issue is part of a much bigger financial package and, crucially, the project depends on political support and the school being sold at below market value.
- Based on existing trading and modest projections, the Natural Food Store IPS could be confident of paying a 3% dividend to investors. In contrast, HEART's business plan showed that there was unlikely to be any dividend in the first ten years.

- ◆ **Wessex Reinvestment Trust** (www.wessexrt.co.uk) has been active in developing community share issues in the South West around the concept of ‘slow money’ (investment that only expects modest returns) and has developed its own model set of IPS rules. Three share issues opened in summer 2007 – Wessex Community Assets, Local Food Links and the ECOS Fund Ltd.

The ECOS Fund is a bencom IPS established to enable small investors to support the building of zero carbon housing in the South West. Similarly to Ekopia, the fund takes in the money and then invests in different building projects through **ECOS Homes** (www.ecoshomes.co.uk). The share issue was to support four projects in building 53 homes, with a target of raising £1.5 million. The minimum investment was £500 and investment was withdrawable with 180 days’ notice. Not exactly ‘slow money’, but slower than property developers, ECOS hoped to pay a dividend of 8-9% a year.

When the issue closed after four months (a closure date is desirable, because the information in the invitation to invest starts to become out of date) approximately £750,000 had been raised.

There are two particularly interesting aspects of the ECOS and Wessex experience. It raises the share issue to a regional level and so brings it to the attention of more investors and, in the case of ECOS, it worked with the Ethical Investment Association and its members’ clients. Thus one independent financial adviser was able to present a fairly short list of named individuals prepared to invest £200,000 between them. This would, of course, be harder if the anticipated returns were lower.

- ◆ **Fordhall Community Farm** (www.fordhallorganicfarm.co.uk) demonstrates the power of an idea. In 2004 Ben and Charlotte Hollins inherited the tenancy of a 140-acre farm from their grandfather, a pioneer of the organic movement. The farm was in a poor state and the landlord intended to sell it off for development. The couple were committed to perpetuating organic and community ideas, and set out with a range of partners to raise £800,000 to buy the land and place it in trust with a charitable IPS (bencom). The idea was that the IPS would lease the land to Fordhall Farm under a comprehensive land use agreement, with the farmhouse and outbuildings being sold to the farm. A full range of community engagement activities was planned.

Gifts to the charitable IPS were eligible for tax relief under gift aid. By September 2006 they had raised over £1 million in shares, gifts and loans (of £200,000) and had 7000 shareholders. The surplus £200,000 was put into educational facilities and the farm shop. The shares are redeemable, but no dividend will be paid on them.

There are some interesting lessons from Fordhall:

- The benefits of being able to tell an inspiring story.
- The importance of a strong partnership (the Soil Association and the Wildlife Trust were involved).
- The benefits of developing a national profile with good media coverage (Sting, Prunella Scales and Prince Charles all helped out).
- The advantages of creating a series of levels with which people can engage – such as farm visits, newsletters and events.

Conclusions and next steps

This paper is intended to enthuse community-based social entrepreneurs about the potential of share issues.

Of course there are caveats – the money won't always come rolling in and the difficulty of raising money from within poor communities has to be recognised. Nonetheless, with a proper assessment of what can be achieved, the worst result is that a greater number of people will feel an ownership of the business project and work to make it a success. It is not an expensive nor hugely time consuming way of achieving that.

To produce larger investments, shareholders will need not only inspiration but also some certainty of the venture succeeding. Many will also want to retain at least the existing value of their money and have the option of accessing that money in the future.

When the government makes recommendations on the reform of the law relating to industrial and provident societies in autumn 2007, one of the recommendations may well be to raise the maximum investment per individual or organisation above £20,000. This would increase the need to ensure accurate information for investors and the importance of making contact with larger investors. Such issues should be tackled in the upcoming research commissioned by Co-operatives UK into the use of the IPS model, undertaken by Baker Brown Associates.

Establishing a trading exchange is a great idea for social enterprises but may be some time off. In the meantime, the need remains for government to incentivise direct investment into community enterprises that will never earn commercial rates of return.

Targeted tax relief on more favourable terms than the existing Enterprise Investment Scheme/Community Investment Tax Relief would certainly contribute towards ending the equity supply problem, but there is still a need to link ethical investor and community enterprise better:

- ◆ Could funds flow through CDFIs?
- ◆ Could regional social enterprise angel clubs be grown out of existing community foundation and corporate social responsibility work? (Business angels are private investors who buy stakes in other people's businesses; they often form clubs to network and exchange ideas.)
- ◆ Do share issues need to be grouped and organised on a regional basis to minimise risk and broaden the investor base?
- ◆ How can major fund managers be encouraged to put a small fraction of their funds directly into social enterprise?

Work is underway on all these fronts, but real progress is only likely when the demand to make share issues work grows. It is down to community enterprises to create that demand.

Endnote

Model IPS memorandum and articles suitable for encompassing share issues are available from Co-operatives UK, Land for People or Wessex Reinvestment Trust amongst others and have been loaded on to the DTA website (www.dta.org.uk) to accompany this paper.

Appendix

Two invitations to invest

Headingley Development Trust

Headingley Development Trust (HDT) wants to raise £1 million by the end of June 2007 to develop Headingley's biggest ever community project. As a vital part of raising these funds we are asking you to buy shares in the venture.

Headingley Enterprise and Arts Centre – the project

Headingley Enterprise and Arts Centre (HEART) will be based in the old Headingley Primary School that closed in 2006.

The building will be refurbished to accommodate:

- ◆ Performance, exhibition and events space on the ground floor.
- ◆ Two large training rooms.
- ◆ A café with secluded outdoor and conservatory seating areas.
- ◆ A 'catalyst' business centre on the first floor particularly targeted at the arts and media industry that should generate five to ten new businesses a year.

The impact

In addition to the advantages of keeping the building in community use and introducing much-needed facilities to central Headingley, we believe HEART will:

- ◆ Create a cultural buzz to Headingley.
- ◆ Provide a focal point for the whole community.
- ◆ Extend the local business base.
- ◆ Encourage graduates to stay on and make Headingley their permanent home.
- ◆ Develop a model 'green' building.

The progress we have made

The HEART project has been a prime focus of HDT since the Trust was founded in September 2005. HDT has built a membership of over 550, including 13 local businesses. Several local businesses – project managers, architects, accountants etc – have offered free support to develop HEART. The Universities and Arts College is also keen to support the project.

In January 2007 the council gave HDT six months to raise the finance and complete the business planning. If we do not convince the council by the end of June that we have a sound business case, the school may be sold on the open market and the site redeveloped.

Why we need your support

£1 million is a lot of money! The building will be acquired and refurbished mainly with loan and grant money (we have already submitted major capital bids), but to reach our target and show local commitment we need to raise at least £200,000 from the local community – individuals, institutions and businesses.

We are aiming to raise £100,000 from individuals and the same amount from organisations and businesses. That's an average of £200 a member: in reality much more from some.

What happens to your money

Individuals and organisations can each buy up to £20,000 of shares. The minimum investment is £100, which will buy 100 shares. Every investor has to become a member of HDT (there are few restrictions on who can join) and HDT will continue to be run on a one-member, one-vote basis.

On receipt of your cheque and request for shares, your money will be placed in a deposit account and a share statement sent to you. At the appropriate time HDT will either invest the money directly in the HEART project or, as the majority shareholder, in the new HEART company, and it will not be spent on anything else without your permission. The constitution of the HEART company will be agreed at a special general meeting of HDT. If for some reason the project does not proceed, you will be offered your money back in full no later than September 2008.

Can I get my money back?

This is not a donation; you will hold shares in HDT. You will be able to apply to withdraw your investment subject to the rules of HDT, but you are not allowed to sell your shares to anyone else. At this stage it is thought unlikely that withdrawals will be allowed for at least three years from the acquisition of the school. HDT has the right to suspend the withdrawal of shares indefinitely.

Next steps

1. Please study the summary business plan available on the HDT website, www.headingleydevelopmenttrust.org.uk. If you do not have access to the internet and would like to see a copy, please ring the contact number on the application form.
2. Fill in the attached form and return it with a cheque to cover the number of shares you want.
3. You can buy shares at any time until further notice, but it is important that we raise the maximum possible by June 2007.

This unique opportunity for Headingley will only happen with your support.

Thank you

The small print

Society

Headingley Development Trust Ltd (HDT) is an industrial and provident society registered under the number 29983R as a society for the benefit of the community. The registered office is 20 Woodland Park Road, Leeds LS6 2AZ. A copy of the society's rules is available on request.

Membership

The Trust is owned by, and accountable to, its members. All members have an equal say, based on the principle of one-member, one-vote.

Membership is open to all persons and organisations that agree with the aims and objectives of the society. Individuals must be at least 16 years of age to be a member.

Members participate in decision-making at general meetings.

Members elect the Board of Directors to manage the business and oversee the work of staff and/or contractors.

Members are kept informed of the work of the society at the annual general meeting and via the annual report and accounts, the newsletter and website.

Shareholding

All shares have a nominal value of £1. The minimum shareholding under this offer is £100. You can buy additional shares up to the legal maximum, currently £20,000.

The shares are not transferable. The notice period for withdrawals is three months. The directors have the right to reduce the amount payable on each share when withdrawn if the auditors of the society certify that there are more liabilities than assets. The Board of Directors has the right to suspend withdrawal for such periods as it thinks fit and it likely to suspend withdrawals for the first three years after HEART is set up.

Interest

Interest payable on share capital is determined by the Board of Directors and communicated to members. Currently, it is not intended to pay interest on share capital.

Governing law and investor protection

HDT is not an authorised institution under the Banking Act 1987 and does not accept deposits. This means there is no share deposit protection scheme for investors. HDT is an exempt person from the regulated activity of deposit taking by its issue of shares pursuant to Paragraph 24 of the Schedule to the Financial Services and Markets Act 2000 ('FSMA') Exemption (Order 2001). The shares are not a specified investment for the purposes of Section 22 of FSMA (what is a Regulated Activity) pursuant to Paragraph 76 of FSMA (Regulated Activities) Order 2001. The issue of withdrawable shares which are not transferable exempts this document from the requirements of an approved prospectus required by Section 85(1) of FSMA. An investment in the withdrawable and non-transferable shares of an industrial and provident society is not treated as a controlled investment for the purposes of Section 21 of FSMA (The Financial Promotion Prohibition) pursuant to Paragraph 14(3) of Schedule 1 of the FSMA (Financial Promotion) Order 2005. HDT has taken all reasonable care to ensure that every statement of fact or opinion included in this information document is true and not misleading.

Risk

Membership of the society and the purchase of shares should be seen as a social investment to support the aims of the Trust and not an investment for personal gain or profit. Membership is not suitable for anyone who needs income from investments or immediate access to their capital. Although the Board of Directors will implement prudent management policies, there is always the risk that you could lose some or all of your share capital.

Data protection

By completing the application for membership you consent to the society and our contractors and agents holding personal data about you in accordance with the Data Protection Act 1998. We do not sell or exchange mailing lists.

Important notice on money laundering

It is a term of this offer that, to ensure compliance with the Money Laundering Regulations 2003, and the Proceeds of Crime Act 2002 and such similar legislation, that HDT will require verification of identity from any applicant. We will contact you about this following receipt of your application.

If shares are bought on behalf of any third party (i.e. not the named member) verification of this person may also be required. If satisfactory evidence of identity is not provided this may result in delays and may even result in your application being rejected, in which event the money payable on application will be returned without interest to the account at the drawee bank to which such money was originally debited.

You should ideally make payment for your shares from your own account. If this is not practicable and you use a building society cheque, third party cheque or banker's draft you must ask the building society or bank to write on the cheque the name and account number of the person from whose account payment is being made.

Application form

Procedure for application

Any individual aged 16 or over and any organisation may apply to become a member of HDT, and may invest in HDT by applying to buy shares. Applications under this offer must be for a minimum of 100 shares (£100).

Applications must be made using the form below. Your form must be accompanied by a sterling cheque.

Acceptance of application will be notified by issue of a Share Statement, which will be posted within 21 days of issue.

The Directors reserve the right to reject any applicant in whole or in part, in which case the application monies will be returned by cheque through the post at the applicant's risk.

Membership is open to both individuals and organisations. All members must be shareholders and all shareholders must be members.

Name of applicant

Contact name (where applicant is not an individual)

Address

Postcode

Telephone

Fax

Email

- I am already a member
- I wish to apply for membership of Headingley Development Trust
- I agree to be bound by the rules of the society
(please enclose additional £5 for membership)

I have read, accepted and understand the terms and conditions set out in this offer and I am aware of the risks involved in investing in HDT. I consent to you holding information in accordance with data protection law

I enclose a cheque for _____ (payable to Headingley Development Trust) for the purchase of _____ shares (minimum 100) at a value of £1 each (plus £5 for membership if applicable).

Signed

Date

Print name

Position in organisation (if applicable)

Please return form to: ...

For further information contact: ...

Applicants and members should be aware that share capital in an industrial and provident society is risk capital and there is a possibility of loss. Headingley Development Trust Ltd currently pays no interest on share capital invested in it. This investment is not suitable for those who require income or ready access to their capital. Investors are not covered by any depositor protection scheme.

Fordhall Community Land Initiative

How can you help?

There are four options available.

1. Buy shares in the Fordhall Community Land Initiative

Shares for Fordhall Community Land Initiative are non-transferable and non-profit making. Shares cost £50 each. There is no limit to the number of shares an individual can buy, but he/she will be entitled to only one vote at the AGM. An additional benefit includes free membership to Friends of Fordhall for the first year.

2. Become a 'Friend of Fordhall: Community Land Initiative'

Annual subscription to be a 'Friend of Fordhall' is £15 per individual or £30 per family. This entitles the subscriber to a quarterly newsletter, information about and concessions at events, volunteering opportunities and invitations to social events. It does not entitle the member to a vote in the AGM.

3. Give a donation

This is a one-off donation of any amount from individuals or groups.

4. Give an interest-free loan

We accept interest-free loans for a minimum of five years. They are repayable after this time at the same value they were received.

5. Become a volunteer

We need help in a variety of ways, from academic based studies to practical maintenance, and of course you can always help by telling at least two other people about us! See our website for more details.

In the unlikely event of the Initiative failing to raise the required amount, where would you like your money to be directed?

Please tick below:

- Returned to self minus admin costs
- Donated to Shropshire Wildlife Trust
- Donated to Friends of Earth
- Donated to Harvest Help

How to join

Application details

Title _____ Name _____

Address _____

Postcode _____

Date of birth _____

Telephone number _____

Email _____

In the interest of saving paper and cost, we are likely to correspond by email where possible.

Applying to

1. Buy shares

How many would you like? (£50 each) _____ Total _____

2. Become a 'Friend of Fordhall Community Land Initiative'

Individuals (£15) _____ Family (£30) _____

3. Make a gift

Amount to be donated £ _____

4. Make an interest-free loan

Loan amount £ _____

Total amount enclosed _____

Please make cheques payable to 'Fordhall Community Land Initiative' and return to Fordhill Farm, Ternhill Road, Market Drayton, Shropshire TF93PS.

Fordhall Community Land Initiative will not release any personal details to third parties without your prior consent.

Gift Aid – Give more at no cost to you

We can claim an extra 28% from HM Revenue and Customs providing you have paid sufficient income or capital gains tax to cover the amount we reclaim. Sign below to enable us to reclaim tax donations on the small monies we receive from you.

Signature(s) _____

Date _____

How did you hear about the Fordhall Community Land Initiative?

Model IPS Memorandum and Articles from VIRSA

Alternative templates available from Co-operatives UK or Wessex Reinvestment Trust amongst others

Rules of

THE ASSOCIATION LIMITED

(Registered under the Industrial and Provident Societies Acts 1965-2002)

Interpretations

1. In these rules “the Act” means the Industrial and Provident Societies Acts 1965-2002, or any Act or Acts amending or in substitution for them for the time being in force. Terms implying the masculine gender shall be taken to include the feminine and the neuter, unless the context requires otherwise.

Name

2. The name of the Society (referred to in these rules as “the Association”) shall be:

“The Association Ltd”

Objects

3. The objects of the Association shall be for the benefit of the community represented by the Association referred to at Rule 2 to sustain, encourage, provide, facilitate or resuscitate village retail enterprises and in particular shops, public houses and garages, including the acquisition of land, construction, improvement, alteration or adapting of buildings or dwelling houses and any other functions ancillary, supplemental or incidental to such objectives.

Powers

4. The Association shall have power to do all things necessary or expedient for the fulfilment of its objects, and in particular to act as managing agent, secretary or provider of services to any society, group of people, Parish Council or other like body (whether incorporated or otherwise) having objectives similar to those of the Association.

Registered Office

5. The Registered Office of the Association shall be at

..... Postcode

Shares

6. Shares of the value of £ each shall be issued to persons and corporate bodies upon admission to membership of the Association. The shares shall be neither withdrawable nor transferable, shall carry no right to interest, dividend nor bonus, and shall be forfeited and cancelled on cessation of membership from whatever cause; and the amount paid-up thereon shall become the property of the Association. A member shall hold one share only in the Association.

Limited Liability

7. The liability of a member is limited to any amount remaining unpaid on that member's single £ share.

Membership

8. The first members of the Association shall be the signatories to the application for registration. Thereafter the Management Committee may at its discretion admit to membership any person or corporate body or the nominee of any unincorporated organisation who supports the objects of the Association and who has paid or agreed to pay the appropriate annual subscription as determined by the Annual General Meeting under rule 14(d) and for the time being in force.

9. A person who qualifies under rule 8 above may apply for membership to the Management Committee, and upon acceptance and the payment of £10 and the annual subscription fee the Association shall issue to him one share certificate and a copy of these rules, and shall enter his name in the register of members. The Management Committee may refuse any application for membership at its absolute discretion.

Cessation of Membership

10. A member shall cease to be a member if he:

- (a) resigns in writing to the Secretary; or
- (b) fails to pay any subscription due in respect of his membership within three months of its falling due; or
- (c) is expelled from membership in accordance with rule 11; or
- (d) is the nominee of an unincorporated organisation and that organisation replaces him as its nominee or is wound up; or
- (e) being an individual, dies; or
- (f) being a corporate body, is wound up or goes into liquidation.

In the event of an individual who is the nominee of an unincorporated organisation ceasing to be a member under clauses (a), (c) or (e) of this rule, the nominating organisation may with the express consent of the Management Committee nominate another individual to membership in his place.

11. A member may be expelled by a resolution carried by a majority of no less than two-thirds of those members voting at a General Meeting of the Association of which due notice has been given, provided that the grounds for expulsion have been specified in the notices calling the meeting and that the member whose expulsion is to be considered shall be given the opportunity to state his case to the meeting. If on due notice having been served the member fails to attend the meeting the meeting may proceed in the member's absence.

12. No member expelled from membership shall be re-admitted except by a resolution carried by a majority of not less than two-thirds of those members present and voting at a General Meeting of which due notice has been given.

Borrowing

13. (a) The Association shall have power to borrow money for the purposes of the Association, including the issue of loan stock, providing that the amount owed shall not exceed £250,000.
- (b) The Association shall have power to mortgage or charge any of its property, including the assets and undertakings of the Association, present and future, to issue debentures and other securities for money borrowed on for the performance of any contracts of the Association or its customers or persons or corporations having dealings with the Association.
- (c) The rate of interest on money borrowed, except on money borrowed by way of bank loan or overdraft or on mortgage from a building society or local authority shall not exceed 5% per year or 3% above the base lending rate of the Association's bankers from time to time, whichever is the higher.
- (d) The Association may receive from any persons donations or loans free of interest towards its work. The Association shall not accept deposits.

General Meetings

14. An Annual General Meeting shall be held within six months of the close of the financial year of the Association, the business of which shall comprise:
 - (a) The receipt of the accounts and balance sheet and the reports of the Management Committee and of the auditor.
 - (b) The election of Management Committee members.
 - (c) The appointment of an auditor.
 - (d) The fixing of annual subscriptions.
 - (e) Such other business as may have been included in the notices convening the meeting.
15. All General Meetings other than the Annual General Meeting shall be called Extraordinary General Meetings.
16. An Extraordinary General Meeting shall be convened either upon an order of the Management Committee or upon a written requisition signed by at least twelve members or ten per cent of the members of the Association whichever is the less. If within twenty-eight days of the delivery of a requisition a meeting has not been convened, the members who have signed the requisition may convene a meeting in the manner provided for in rule 17.
17. A General Meeting shall be convened by at least fourteen days' notice in writing posted or delivered to every member at the address recorded in the register of members, specifying whether the meeting is an Annual or an Extraordinary General Meeting and stating the time, date and place at which it is to be held. The notice of a General Meeting shall contain details of the nature of the business to be transacted, and no business may be transacted other than that specified in the notices calling it.
18. A notice sent by post to a member's registered address shall be deemed to have been duly served forty-eight hours after its posting. The accidental omission to send any notice to or the non-receipt of a notice by any member shall not invalidate the proceedings at the meeting.

Proceedings at General Meetings

19. No person other than a member duly registered, who shall have paid every subscription and other sum (if any) which shall be due and payable to the Association in respect of his membership, shall be entitled to vote on any question at any General Meeting. Each member shall hold one vote only.
20. A member which is a corporate body shall be represented at General Meetings by any person of its choice provided that any person claiming to be acting on behalf of a corporate member shall be able on request to produce written authorisation from the governing body of the member organisation so to do, and in the absence of such authorisation the Chairman of the meeting may eject said person.
21. No business shall be transacted at a General Meeting unless a quorum is present. A quorum shall be five members or one-tenth of the members of the Association, whichever is the greater.
22. If within half an hour after the time appointed for the meeting a quorum is not present, the meeting, if convened upon the requisition of members, shall be dissolved. In any other case it shall stand adjourned until a day between twenty-one and thirty-five days after the date set for the original meeting, and notice shall be given to all members of the adjourned meeting as of the original meeting. If at such an adjourned meeting a quorum is not present within half an hour after the time set for the meeting, then the members present shall constitute a quorum.
23. At every General Meeting the Chairman of the Association shall preside, and in the event of his absence twenty minutes after the time set for the commencement of the meeting the Vice-Chairman shall preside, and in the event of his absence the members present shall choose one of their number to be Chairman of that meeting, whose function shall be to conduct the business of the meeting in an orderly manner.
24. The Chairman may with the consent of any meeting at which a quorum is present, and shall if so directed by the meeting, adjourn the meeting from time to time and from place to place, but no business shall be transacted at an adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place. Where a meeting is adjourned for twenty-one days or more, notice of the adjourned meeting shall be given as in the case of the original meeting; otherwise it shall not be necessary to give any notice of an adjournment or of the business to be transacted at an adjourned meeting.
25. At any General Meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a secret ballot is, before or on the declaration of the result of the show of hands, demanded by at least two members present. Unless a secret ballot be so demanded, a declaration by the Chairman that a resolution has on a show of hands been carried or lost and an entry to that effect in the book containing the minutes of the proceeding of the Association shall be conclusive evidence of the fact without proof of the number or proportions of the votes recorded in favour or against such resolutions.
26. If a secret ballot is duly demanded it shall be taken in such a manner as the Chairman directs, and the result of the ballot shall be deemed to be the resolution of the meeting at which the ballot was demanded.
27. The demand for a secret ballot shall not prevent the continuance of a meeting for the transaction of any other business than the question upon which the ballot has been demanded. The demand for a secret ballot may be withdrawn.
28. In the case of an equality of votes, whether on a show of hands or on a ballot, the Chairman of the meeting shall have a second or casting vote.

29. A resolution in writing signed by all the members for the time being entitled to vote at General Meetings shall be valid and effective as if the same had been passed at a General Meeting duly convened and held and may consist of several documents in the same form each signed by one or more members.

Officers

30. The Management Committee shall elect honorary officers from amongst its own number to include a Chairman, Vice-Chairman and Treasurer. Such officers shall serve until removed or replaced by the Management Committee or until they resign from office, shall be under the direction of the Management Committee, and shall have those functions specified in these rules and such other functions as the Management Committee may decide from time to time. The Management Committee shall appoint a Secretary of the Association, upon such terms and such remuneration as it thinks fit, who may or may not be a member of the Association or of its Management Committee, and any Secretary so appointed may be removed by the Management Committee.

Management Committee

31. Unless otherwise determined by the Association in General Meeting, the Association shall have a Management Committee comprising not less than four nor more than eight members elected at the Annual General Meeting. Only persons aged eighteen years or over shall be eligible to be members of the Management Committee.

32. The initial Management Committee of the Association from incorporation until the first Annual General Meeting shall be appointed by the Founder Members.

33. At every Annual General Meeting all members of the Management Committee shall retire from office. A retiring Management Committee member shall be eligible for re-election.

34. New Management Committee members shall be elected individually at the Annual General Meeting by the members present and voting. Nominations for Management Committee members shall be delivered to the Secretary not less than seven days before the Annual General Meeting. In addition the Management Committee may at any time co-opt any member of the Association to serve on the Management Committee provided that the maximum size of the Management Committee specified in these rules is not exceeded. A co-opted member shall serve until the Annual General Meeting following his co-option.

35. In the event that the size of the Management Committee shall fall below the minimum specified in these rules, the Management Committee may act for the purpose of calling a General Meeting, the business of which shall include the election of new members to the Management Committee, but for no other purpose.

36. A Management Committee member shall declare an interest in and shall not vote in respect of any matter in which he has a personal financial or material interest and if he does so vote his vote shall not be counted.

37. Any remuneration of Management Committee members shall only be in respect of services actually rendered to the Association in furtherance of its objects. Management Committee members may also be paid all reasonable expenses incurred by them in attending and returning from meetings

of the Management Committee or General Meetings of the Association or in connection with the business of the Association.

38. The office of Management Committee member shall be immediately vacated if he:
- (a) resigns his office in writing to the Association; or
 - (b) ceases to be a member of the Association; or
 - (c) is removed by a simple majority vote of the members at a General Meeting of the Association, the notices of which specified that the question of such removal was to be raised; or
 - (d) in the opinion of the Management Committee, fails to declare his interest in any contract as referred to in rule 36; or
 - (e) becomes bankrupt or becomes, in the opinion of the Management Committee, incapable on medical or psychological grounds of carrying out the functions of a member of the Management Committee.

Powers and Duties of the Management Committee

39. The activities of the Association shall be managed by the Management Committee who may pay all expenses of the formation of the Association as they think fit and may exercise all such powers of the Association as may be exercised and done by the Association and as are not by statute or by these rules required to be exercised or done by the Association in General Meeting.
40. No regulation made by the Association in General Meeting shall invalidate any prior act of the Management Committee which would have been valid had that regulation not been made.
41. All cheques, promissory notes, drafts, bills of exchange and other negotiable instruments, and all receipts for monies paid to the Association shall be signed, drawn, accepted, endorsed, or otherwise executed in such manner as the Management Committee shall from time to time direct.
42. Without prior prejudice to its general powers, the Management Committee may exercise all the powers of the Association to borrow money and to mortgage or charge its undertaking and property or any part thereof and to issue debentures and other securities whether outright or as security for any debt, liability or obligation of the Association or any third party.

Proceedings at Management Committee Meetings

43. Members of the Management Committee may meet together for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. The Secretary shall, at the request of an honorary officer or of two or more Management Committee members, summon a meeting of the Management Committee at any reasonable time by giving adequate notice in writing to all of its members.
44. The quorum necessary for the transaction of business at a Management Committee meeting shall be three members of the Management Committee present.
45. At every meeting of the Management Committee the Chairman of the Association shall preside, and in the event of his absence twenty minutes after the time set for the commencement of the meeting the Vice-Chairman shall preside, and in the event of his absence the Management Committee members present shall choose one of their number to be Chairman of that meeting, whose function shall be to conduct the business of the meeting in an orderly manner.
46. The Management Committee shall cause proper minutes to be made of all the proceedings of the Association, of the Management Committee and of any sub-committees. All such minutes shall be

open to inspection by any member of the Association at all reasonable times.

47. Questions arising at Management Committee meetings shall be decided by a majority of votes of those present. In the event of a tied vote the Chairman shall have a second or casting vote.

Investment of Funds

48. The Association may invest any part of its funds:
- (a) in or upon any security in which trustees are for the time being authorised by law to invest;
 - (b) in or upon any mortgage, bond, debenture stock, corporation stock, rent charge, rent or other securities (not being securities payable to bearer) authorised by or under any Act of Parliament passed or to be passed of any Local Authority as defined by Section 31 of the Industrial and Provident Societies Act 1965 as amended by Statutory Instrument 1990, number 776;
 - (c) in the shares or on the security of any other society registered or deemed to be registered under the Act or under the Building Societies Act, or of any company registered under the Companies Act, or incorporated by Act of Parliament, or by Charter, provided that no such investment shall be made in the shares of any society or company other than one with limited liability. The Association may appoint any one or more of its members to vote on its behalf at any meeting of any other corporate body in which the Association has invested any part of its funds.

Application of Surplus

49. The Association shall not trade for profit. Any surplus shall be applied as follows, in such manner and in such proportion as may be decided by a General Meeting:
- (a) to a general reserve for the continuation and development of the Association;
 - (b) to make payments for social or charitable purposes compatible with the objects of the Association.

Auditors

50. The members shall vote annually, as allowed by the Deregulation (Industrial and Provident Societies) Order 1996, at the Annual General Meeting, to have, when necessary in law, or where the membership require, an audit carried out by a registered auditor, or an audit carried out by two or more lay auditors, or a report carried out by a registered auditor, or unaudited accounts, where the conditions for such prevail.

If a full audit or a report is required, a person who is a qualified auditor under section 7 of the Friendly and Industrial and Provident Societies Act 1968 shall be appointed.

The qualified or lay auditors, if so appointed, shall not be officers or servants of the Society and nor shall they be partners of, or in the employment of, or employ, an officer or servant of the Society.

Lay auditors shall be chosen by the Committee of Management from the general membership and/or others.

51. If the membership vote for unaudited accounts, the Association's Income/Expenditure Ledger shall be scrutinised by the Secretary and Committee Members only and signed, as a true record, by the Secretary and two committee members or such other number as may be required by legislation. An Income/Expenditure report will be prepared to present to the Association's members at each Annual General Meeting.

Annual Return

52. Every year and within the period prescribed by statute, the secretary shall send to the Financial Services Authority (FSA) or its statutory successor the annual return, in the form prescribed by the FSA or its statutory successor, relating to its affairs for the period required under the Industrial and Provident Societies Act 1965 to be included in the return together with:
- (a) a copy of the report of the auditor on the society's accounts for the period included in the return or with a copy of such other report (if any) as is required by statute for such period; and
 - (b) a copy of each balance sheet made during that period and of the report (if any) of the auditor or other appropriate person on that balance sheet as required by statute.

Records

53. The Association shall keep at its Registered Office a Register of Members in which the Secretary shall enter the following particulars:
- (a) the names and addresses of the members;
 - (b) a statement that one share only is held by each member and that £..... has been paid, or agreed to be considered as paid, on each share;
 - (c) a statement of other property in the Association, whether in loans, deposits or otherwise, held by each member;
 - (d) the date at which each person or body was entered in the register as a member, and the date at which any person or body ceased to be a member;
 - (e) the names and addresses of all Management Committee members and the Secretary of the Association, with the dates on which they assumed office and the dates on which they retired from office.

Any member changing his address shall notify the Association.

Amendments to Rules

54. Any rule herein may be rescinded or amended or a new rule made by a vote of three quarters of all the members of the Association present and voting at a General Meeting of which fourteen clear days' prior notice has been given, such notice to include details of the change(s) to be proposed at that meeting. No amendment of rules is valid until registered by the FSA or its statutory successor.

Dissolution

55. The Association may be dissolved by the consent of three quarters of the members by their signatures to an instrument of dissolution, or by winding up in a manner provided by the Acts. If on the winding up or dissolution of the Association any of its assets remain to be disposed of after its liabilities are satisfied, the assets shall not be distributed among the members, but shall be transferred to such organisation or organisations having objects similar to or compatible with those of the Association as may be decided by the members at or before the time of the winding up or dissolution or, in so far as the assets are not so transferred, then to some charitable object.

Deceased and Bankrupt Members

56. (a) Upon a claim being made by the personal representative of a deceased member or the trustee in bankruptcy of a bankrupt member, any property to which the personal representative or trustee in bankruptcy has become entitled may be used as the personal representative or trustee in bankruptcy may direct.
- (b) A member may in accordance with the Act nominate any person or persons to whom any of his property in the Association at the time of his death shall be transferred, but such nomination

shall only be valid to the extent for the time being provided in the Act. On receiving satisfactory proof of the death of a member who has made a nomination the Association shall, in accordance with the Act, either transfer or pay the full amount of such property to the person so nominated.

Signatures of Founder Members

Full names in BLOCK CAPITALS (no initials)

1.

.....

2.

.....

3.

.....

Secretary:

.....

ViRSA

Revised 2005

This short paper will suggest that community share or bond issues can be straightforward, affordable and bring benefits beyond raising cheap money.

A share issue not only raises affordable capital, it turns the dry activity of raising money into a campaign amongst supporters.

Everyone loves people “doing it for themselves” and share issues are just that. The political and institutional support offered can be much greater than for grant-generated growth.

This paper is intended to enthuse community based social entrepreneurs about the potential of share issues.

From **Community Share and Bond Issues**

The sharpest tool in the box

The experience of the DTA is that community organisations need to be well capitalised to deliver their missions over the long term – community share issues offer an untapped resource to achieve this end.

Steve Wyler, Director, Development Trusts Association

The Adventure Capital Fund was established to find innovative ways to help sustain and grow the social impact of community enterprises. We are keen to support clients to tap into the growing market for local ethical investment.

Sue Peters, Managing Director, Investments Adventure Capital Fund

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£10 (free on attendance at Viability not Liability seminar)

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