



# Somerset Co-operative Community Land Trust

## Draft Offer Document

### **Mission statement**

Our mission is the provision of land, buildings and ancillary services, in accordance with co-operative principles, for the benefit of the community in Somerset, in order to reduce inequality, social exclusion and environmental impact and improve the quality of the built environment.

The values that guide us in doing this are grassroots empowerment, sustainability, mutuality, community and equality.

### **Rules**

Somerset CCLT is registered as a multistakeholder IPS co-operative (Somerset rules) number 30745 with user members being drawn from two stakeholder groups: residents of Somerset and tenants of the CLT.

Outside investors may also join, but with voting rights limited to 25% of the voting strength at any general meeting. This is sufficient to elect a minority of directors to the board, veto changes to the rules or proposals relating to levels of return on investment or the conditions of shares.

The rules allow for withdrawable share capital to be issued to all classes of member. These shares can be withdrawn on request, although the committee may suspend withdrawals at any time if necessary. Withdrawals are currently suspended until the end of 2011. Interest is payable on share capital, at a level that in the opinion of the board is sufficient to attract and retain investment.

### **Objectives**

1. Using ecological design and technology, provide accommodation that is accessible for the very lowest paid.
2. Enable all tenants to build up an equity stake and participate in management.
3. Provide managed workspace for co-operatives and community enterprises in collaboration with Somerset Co-operative Services CIC, with a particular focus on sustainable and ecological enterprise.
4. Alongside self contained business units, provide an open access centre for aspiring social entrepreneurs from the local community to meet, learn and work.
5. Form effective partnerships and co-operative relationships with local government, social enterprises, voluntary sector agencies and others sharing our values.
6. Target areas for developments are Taunton, Glastonbury, Castle Cary and Yeovil.

## The investment opportunity

This is an offer document for an issue of withdrawable share capital. The funds will be invested in the purchase, improvement and development of buildings and land for the benefit of the community. Mortgage finance will be used to gain maximum leverage. Financial returns are expected from income in the form of rent; we aim to provide interest payments of between 3% and 6%, depending on profitability, from year 2. Withdrawable share capital cannot be transferred and cannot increase in value, but can be repaid on request. Under some circumstances, the committee may suspend all withdrawals; if the liabilities of the business exceed its assets (not including share capital) the value of shares may be reduced. The shares are full risk, and in the event of the business becoming insolvent, you could lose all your funds.

Our aim is to raise £170,000, which would be sufficient to develop our first two properties. This initial appeal, covered by this document, will close on the 30<sup>th</sup> June. However, we will continue to be open to further investment as we move on to consider new developments.

Please note that although the properties referred to in this document have been the focus of our planning, no contracts have been exchanged on them and they may be sold to other buyers before we can secure them. If that is the case, or if we raise less funds than our target, we will use our judgement to employ funds in whatever way will best achieve our objectives.

## What is the housing need in the area?

- Somerset is experiencing a housing shortage. In the Taunton Housing Market area, need per 1000 households (Fordham index) is 15.3, among the highest in Somerset (source: Taunton Deane Housing Need Survey 2008).
- Social housing providers are overwhelmed by the demand. In 2007 there were 7,000 people on the housing waiting list – a rise of 59%.
- The private rental market is unaffordable to people on low incomes: a two bedroomed flat for rent, again in the lower quartile, costs £555 per month (source: Rightmove 16<sup>th</sup> May 2008). Local Housing Allowance in 2009 provides just £62 a week – two unrelated people sharing a two bed flat, or a parent with a child, would be unable to afford even a basic private rented flat. A couple with no children would find it even harder.
- Assuming a mortgage of 3.5 times income, the deposit needed by the median earner to buy an entry level 2 bed home (entry level 2 bed homes in Taunton cost £127,000) would be £50,000. 83% of residents of Taunton Deane have less than £50,000 savings.
- Almost 7,000 new households are expected to form in the next two years in Taunton alone. 80% expect to be earning less than £20,000. 60% said they had no access to any funds for a deposit.
- 3% of all households are unsuitably housed and cannot afford any market option.
- 77% of those in housing need are likely to be unable to afford either discounted housing for sale, or shared ownership. For them, social rents are the only option.
- The figures were re-assessed on the basis of a 15% fall in house prices and a 6% fall in rents. From 2008 levels it makes little difference, with the figures for housing need per annum down from 586 to 501. Falls of 30% in house prices would make a much more significant impact.
- Of people in the private rented sector, 44% expect to remain there – but only 8% wish to, with 69% wishing to be owner occupiers. Flats are the preferred option of only 7% of households, but 37% of potential households.
- 59% of future households would like to be owner occupiers; 57% expect to live in the private rented sector.

From this we conclude that there is a real problem of affordability, with overpriced private sector housing absorbing the consequences of overcrowded waiting lists for true social housing (sources for above Taunton Deane Housing Need Survey 2008).

There is a particularly acute shortage of housing for people without children, who are (perhaps understandably) not prioritised on the waiting list. Coupled with the low earnings and savings held by young people, it is new and prospective households that are perhaps being worst treated. This is compounded by Local Housing Allowance rules that arbitrarily discriminate against people aged under 25, and against people who are part of a couple.

## The need for business incubation among community enterprises

Business incubation is a systematic approach to supporting new enterprises that combines affordable workspace, accessible support and specialist advice, and peer support. SWRDA accepts a definition of Business Incubation as “A process that helps to reduce the failure rate of early stage companies and speed the growth of companies which have the potential to become substantial generators of employment and wealth. The process spans creation

of the business idea through company formation, to assisting the company finding appropriate accommodation outside the incubation centre in grow-on facilities and until the company no longer actively seeks assistance. A project without all of the essential features below cannot be called a business incubator and should be called a managed workspace.”

Essential Features	Important Features
Access to networks	Communal areas
Mission statement/strategy/objectives	Focal point or physical presence
Access to finance and mentors	On-site management and daily contact
Company selection and exit policy	Access to specialist facilities
Direct guidance/assistance available	
Flexibility of space and terms	
Realistic and sustainable business plan	
Singular or complementary sector focus	

Social enterprises particularly benefit from incubation. They have additional advice and support requirements relating to proving and improving their social impacts, over and above the normal requirements of operating a business. They often start with less access to finance than conventional business, because they are founded by community activists responding to a social need, rather than entrepreneurs responding to a profit opportunity. They rarely have the opportunity to 'inherit' suitable existing premises, and find it hard to compete for high visibility shopfronts.

A survey for Cambridge CDA in 2003 examined the feasibility of a Social Enterprise incubator in Cambridge. In the survey of existing social enterprises 60% of the respondents stated that access to affordable, appropriate premises had been a major problem in setting up their businesses.

Social Enterprise London (SEL) has also identified this barrier. “Within the community development strand a common strategy is asset-based development. This development strategy recognises that the possession of tangible assets – land, buildings or a dedicated income – is one means of achieving the goals of self-sufficiency, independence and sustainability, which underpin community-based regeneration organisations. Asset-based approaches have also included the development of business incubators or social enterprise centres to assist new

social enterprises. These offer access to peer groups, networks and mentoring as well as provision of premises, advice and access to funding and expertise, including micro credit schemes, business training, pre-start-up and start-up grants and outreach work.”

The South-West Regional Development Agency states that “Incubation is as much about people and networks as workshops and laboratories. Only by developing a holistic approach that combines infrastructure and support services to create a positive economic environment will we see successful growth businesses emerge that will make a real contribution to the region’s economy.

Our aim is to create settings that give grassroots activists from the local community more opportunities to learn, train and create employment opportunities. Part of the space for business incubation will provide 'hot desking' opportunities and meeting space that can be booked by the hour. This will enable people who are not trading, or who have not fully established a project, to work with professional facilities and in a businesslike setting. They will be able to access advice from qualified social enterprise development workers, learn from well established ethical business models, and use local currencies to help develop new co-operative social enterprises.

## What can SCCLT do to help those excluded from the housing market?

SCCLT does not have access to Social Housing Grant, as larger Housing Associations do. That means that it is not in a position to build housing that can be sold at well below market rates, or rented at below market levels.

Some CLTs have benefited from land sold with good prospects for planning permission, but no uplift in the price. We have made enquiries with TDBC and other agencies, and there is no prospect of such a site coming available in the foreseeable future.

What we can do is look for sites that have development potential, and find a developer for the larger part of the site so that the smaller part is effectively subsidised. If this developer is a Housing Association, there is a double benefit: the Housing Association gains access to a site it might not previously have known about, and can access social housing grant.

The resulting accommodation is unlikely to be as cheap as a housing association can provide; in order to be affordable to someone in receipt of Local Housing Allowance, it may need to include bedsits (a form of accommodation that is much less popular, and is usually not provided by social landlords).

Nevertheless, a co-operative community land trust can provide some benefits normally only associated with home ownership:

- Tenant management. By giving tenants a strong role in the management of the co-operative, the sense of disempowerment that comes from having a landlord – even a social landlord – is significantly diminished. Tenants know that they have real authority in the co-operative, and can collectively take decisions on a range of issues.
- Equity. A key benefit of home ownership is the opportunity to build up an equity stake in the housing, that can be taken on to future house purchases. Local Housing Allowance does not normally cover any element of equity – particularly given the recent announcement that any surplus over and above the eligible rent cannot, from April 2010, be retained by the tenant. However, LHA can be used to make payments under a rental purchase agreement.

## Our first developments

### ***Wellington Road, Taunton***

We have an opportunity to buy a large detached property and development plot close to the centre of Taunton. We would immediately make the larger property available for housing – it is in good condition, and suitable for immediate occupation – and develop the site using eco-building techniques so as to create further housing, shop fronts on to the main road and office space above.

This new development will include a children's playcentre, starter units for local community enterprises, co-operative 'hot desking' areas and a car club. The aim is to showcase co-operative and community enterprise in Somerset's county town, and provide facilities for meetings and events locally.

No planning permission is required for phase one, in which housing alone is provided using the permitted development rights already inherent in the property; however, the development of the incubator will require Somerset Co-operative Services to secure planning permission. This is not expected to be particularly complex, and the figures below do not in any event rely on it.

Cost of purchase and other preliminaries	465000
Cost of improvement and conversion (phase I)	13000
Annual income from housing	30500
Annual income from incubation	5000
Annual expenditure	23700
Surplus as % of expenditure	50%
Projected return to investors	6%

### ***Higher Flax Mills, Castle Cary***

Castle Cary is a small town, but has excellent transport connections by bus to Shepton Mallet, Street, Wincanton and Yeovil; and by train to Taunton, Frome, Yeovil, Bristol and Reading. Higher Flax Mills is an

industrial property of exceptional architectural value; it carries a grade 2\* listing. While this obviously restricts the types of development that can be considered, it has been previously granted permission for a mix of housing and workspace very consistent with our aspirations. The low asking price makes it an attractive proposition for us, and we would expect to develop it using the minimum of additions to the fabric of the building and sensitive use of materials.

Once renovated, the property will consist of 4 light industrial units on the ground floor, two properties each with four bedrooms on the first floor, and an open plan office area with two meeting rooms and a conference area on the second floor.

Cost of purchase and other preliminaries	238613
Cost of renovation and conversion	214489
Annual income from housing	22959
Annual income from incubation	7500
Annual expenditure	21363
Surplus as % of expenditure	43%
Projected return to investors	5%

These two projects are both under active consideration: however, we cannot be certain that either one will proceed, or that an even more suitable property may not be identified. For that reason, the committee retains the power to use funds however it sees fit.

## The Committee

### Sandra Aldworth (Treasurer)

Sandra Aldworth is a Chartered Accountant (qualified in 1986), and a member of the Tax and Finance and Management Faculties of the Institute of Chartered Accountants. She worked until October 2005 as the financial controller of The Castle Hotel, Taunton, and BRAZZ plc (turnover £5 million); before that she worked as financial controller or consultant for a number of businesses. She is a founder member of Somerset Co-operative Services, and is responsible for year end accounts for over fifteen social enterprises, in some cases also providing payroll and quarterly management accounts.

### Malcolm Allan

Malcolm has been a campaigner for community enterprise in Somerset for over a decade. He has been closely involved in Mendip Credit Union, Avalon Fair Shares and the Glastonbury Assembly Rooms. He has also supported local Housing Co-operatives, working with Radical Routes. More recently, he has been organising locally under the banner of 'Grassroots Glastonbury' to bring together social change activists from around the area under one roof. He lives in Glastonbury, while studying Social Entrepreneurship at Dartington College.

### Alex Lawrie (Secretary)

Alex Lawrie is a founder member of Stepping Stones and Cornerstone Housing Co-ops, Footprint

Workers Co-operative and Chapeltown Credit Union, the Ecological Land Co-op, Go! Co-operative and Somerset Co-operative Services. He studied politics at Leeds University, worked for Yeovil College as a lecturer in IT, has received training in Fundraising and Training Skills from the DSC, and in Planning for Real from the Neighbourhood Initiatives Foundation (he is NIF training associate). He is a SFEDI accredited social enterprise advisor. He is the author of 'Empowering the Earth' (Green Books, 2000).

### Paul Lund

Paul Lund is an environmentalist with a background in nature conservation and a deep interest in how communities make eco-gains. He grew up in Surrey, first managing a local nature reserve and visitor centre on the Hampshire border, then working for RSPB Education and BTCV in London. Paul was the first local authority countryside officer in Woking, managing up to 1000 acres of public open space. Moving then to Somerset, contracted to the Somerset Ecology Consultants, he later joined the staff at Somerset's Cannington College, teaching countryside tourism, recreation and interpretation, whilst also producing freelance reports for local BBC and international radio. In 2006 he founded The Sustainable Environment Company CIC to take forward proposals for a sustainable environment centre at the Morlands. Paul also coordinates the Greener Lifestyles Exhibition and Sustainable Solutions public meetings, he now lives in

Glastonbury and advocates greener living with Glastonbury as the Green Capital of Somerset.

We look forward to working with new members of the CLT, both community and tenant, who are

interested in joining the committee. We have the power to co-opt new members between general meetings, and we are keen to encourage candidates to stand for election at our AGM.

### **Tenant Management**

Somerset CCLT's rules guarantee that tenants and prospective tenants may not be unreasonably prevented from joining as members. If a member ceases to be a tenant, then soon after their membership will also lapse. As long as there are only one or two tenant members, all members participate on the basis of collective voting, and community members (of whom there are presently three, and more likely to join) have a majority.

However, at the point that there are three or more tenant members, voting is by an electoral college where tenant members have 60% of voting strength and community members 40%. So, tenants have the opportunity to appoint most of the committee, and set policy for matters such as repairs, rent, furnishing and decoration, and application of surpluses. However, they may not directly or indirectly transfer funds to themselves or any other members, always applying them to the objects of the co-operative.

### **Rental purchase agreement**

Unusually, the form of tenure we propose for tenants of the CLT is that of rental purchase. Under this model, occupants of the CLT's accommodation will be licencees, rather than tenants or owners (this distinction does not prevent them becoming members of the co-operative, as described above). The payments they make are in two parts: an occupancy charge, payable while the licensee occupies the premises; and a rental purchase payment towards the eventual purchase of a long lease on the accommodation. The size of this charge must be no less than a minimum of 20% of the occupancy charge, and may be increased up to a ceiling level with each increased £2 of payment being matched by a £1 reduction in the occupancy charge.

Both the occupancy charge (sometimes known as a mesne rent) and the rental purchase payment are 'eligible rent' for the purposes of LHA, so this will be fully affordable to an LHA claimant. Although it may technically be a high proportion of the tenant's income, and hence not meet the definition of a social rent, it will be covered by benefits that cannot be used for any other purpose.

The purchase will be completed at the point when the agreed cost of the property has been paid in full

(unlike many rental purchase schemes, no interest will be chargeable). At that point, the long lease will be conveyed. The lease will have an important conditions, however; the CLT will retain the first option to buy (at the original price plus a rate of interest slightly greater than the prevailing rate of inflation) in the event that it ceases to be the leasee's main residence, so that the accommodation can be re-let as social housing.

It is likely that long before the rental purchase has been completed, the occupant will wish to move. In that event, there is an obligation on the CLT to lend them sufficient funds to complete the purchase. That is then immediately followed by the CLT buying back the lease, leaving the occupant with a refund of their rental purchase payments, with interest, as equity towards a home purchase or whatever other purpose they may choose. Occupants do not benefit from house price rises, as home owners do; but equally they are not exposed to falls in house prices.

This system helps the CLT by potentially providing additional cash flow, and helps people on low incomes to build up equity at least as fast as a mortgagee would do, but at much lower payment levels and with no deposit required.

### **Investing in Somerset Co-operative Community Land Trust**

This is an invitation to purchase withdrawable share capital in Somerset Co-operative Community Land Trust Limited, an Industrial and Provident Society no... Please read it carefully – you may wish to seek advice from an Independent Financial Advisor authorised under the Financial Services Act 1986. Membership is open to individual British citizens and UK residents aged 16 or over, corporate bodies,

voluntary organisations and public sector investors. While you may hear about this business from other sources, you should make your decision based solely on the information in this document.

The minimum investment is £250, but larger investments will help us to progress more rapidly; the maximum investment is £20,000. You can invest

in installments, with an initial sum of £50 followed by further payments of £50 every two months. If you are unable to afford the minimum investment, but feel that you could contribute to the work of the CLT in other ways – as a volunteer, a prospective tenant, or service user – the committee does have the discretion to waive the minimum investment, and you are encouraged to apply. We may need to see proof of your identity, in order to comply with money laundering regulations.

Each share has a nominal value of £1. Shares may be withdrawn subject to 180 days notice; this right of withdrawal can be suspended by the board, and is automatically suspended for the first three years of investment. All applications are subject to the terms set out in the rules, which available on request. In the case of joint investments all concerned must agree to a withdrawal. Shares will normally be repaid at the original price, but the committee has the right to write down the value of shares, if the liabilities of the CLT should exceed the value of its assets. Shareholders who then withdraw their shares will only receive the written down value of their shares. In the event of the CLT ceasing to trade, shareholders will be re-paid up to a maximum of £1 for every £1 share owned, once all creditors have been repaid in full. You may not benefit financially from your shares if we convert, or transfer our business or are wound up. The only financial benefits you may receive from your shares are the possibility of interest and the possibility of the return of the money you pay for your shares.

Your details will be kept on a computerised database, but they will not be given to a third party without your permission.

### **Nomination option**

In the event of the death of a shareholder, the repaid value of the shares will normally be added to the estate for Probate purposes. You may (if you so wish) elect to nominate a recipient for the value of the shares (but only up to £5,000) and thus (under current legislation) remove the value of the shares (up to £5,000) from your estate for probate purposes (but not capital tax purposes).

### **Warning**

You may lose the value of your shares. As an Industrial and Provident Society, Somerset Co-operative Community Land Trust Limited does not need to be authorised by the FSA to take deposits by issuing these withdrawable shares. It is not regulated, to the extent that it is taking deposits by issuing withdrawable shares. So, the money you pay for your shares is not safeguarded by any depositor protection scheme or dispute resolution scheme.

Our shares are not “investments” for the purposes of the Financial Services Act 1986. So you do not have the level of protection that you might otherwise be offered by the Act. In particular, this document does not need approval (and has not been approved) by an “approved person” under Section 57 of the Financial Services Act 1986. This document is not regulated by the Prospectus Regulations 2005. Those regulations do not apply because there is a specific exemption for Industrial and Provident Societies.

Should the CLT get into financial difficulties:

- We may have to suspend your rights to withdraw your shares
- We may have to write down the value of your shares
- You may lose all the money you pay for your shares

Can you afford to be without the money you pay for these shares? If not, do not buy them.

### **Terms and Conditions for applying for Shares**

You cannot withdraw your application for shares after we receive your application form. We do not have to accept your application for shares. We may decide not to issue shares to you. Or we may decide to issue to you fewer shares than you apply for. We do not have to give any reason for our decision. Your application must be considered for approval at the next convenient committee meeting and these normally take place four times per year, and therefore you should not expect an immediate response.

We will acknowledge receipt of your cheque and application. We may cash your cheque as soon as we receive it. But until we issue shares to you, we will keep your money in a separate account. We will hold that money on trust for you until we issue shares to you.

We will return your cheque to you (within seven days of the committee meeting at which we consider your application) if we decide not to issue shares to you. If we decide to issue to you, fewer shares than you apply for, we will return the balance to you (within seven days of that committee meeting).

The money will belong to us (and we no longer hold it on trust for you) as soon as we issue shares to you (to the extent that we take it as payment for shares). We will not pay you interest on any money we return to you.

The law of England applies to these terms. The courts of England and Wales have non-exclusive jurisdiction. You will be bound by our rules (as may be amended from time to time) if we issue shares to you.

