

## **Rationale for Hengistbury Head requesting interest payments on Community Shares;**

This document is explanation for the requirements of the The FCA and Charities commission in order that that interest may be paid on community Shares with a charitable Community Benefit Society. This document provides our rationale for proposing the rule change to pay interest on Community Shares.

The regulations and recommendations are in the left had column and our response to these requirements and recommendation are in the right hand column.

For full details see

- RFCCBS 6.1.35 at <https://www.handbook.fca.org>.

- and original guidance from the Charity Commission:

<https://www.gov.uk/government/publications/exempt-charities-cc23/registered-societies-under-the-co-operative-and-community-benefit-societies-act-2014-previously-known-as-industrial-and-provident-societies-paymen>

In regards to the FCA conditions we note;

RFCCBS 6.1.19G24/02/2023: In general, the share capital of a society should not be more than the level needed to support its activities	HHO need to raise share capital to enable us to renovate the Hengistbury Head Outdoor Activity and Well Being Centre we have recently taken on a 99 lease for. The building is currently deemed unsafe.
RFCCBS 6.1.21G24/02/2023: Societies can pay interest on shares.	HHO Directors believe we will only be able to collect the £300,000 investment in community shares needed for this project if some interest is paid to members
RFCCBS 6.1.22G24/02/2023  Generally speaking, interest on shares should only be paid where the society can afford to do so, having taken into account other liabilities and any contribution to the society's reserves. Share interest should not be used as a means of profit or surplus distribution or as a substitute for dividends.	Our rules state that "Interest on share capital is a cost of capital and should not be paid out of profit ... and the interest rate shall be set and declared in advance of the period for which it is intended to be paid and before any profit is determined".
RFCCBS 6.1.23G24/02/2023  The way a society uses interest on shares can be an indicator of whether it is complying with its condition for registration because: (2) in the case of a society conducting its business for the benefit of the community the society's funds must be used to further the community benefit.	We will comply with part 2 for RFCCBS 6.1.23G24/02/2023 as the money raised will be used to bring the site into use, thus enabling the community to benefit from bringing the centre back into full use.
RFCCBS 6.1.24G24/02/2023  The factors below are indicators of where a	Shares will be only be available to members (including new members). Membership will a

society is likely to be complying with the conditions for registration:  (1) societies are primarily inviting people to become members of the society, along with any accompanying request for capital (additional to the minimum required for membership) from the prospective member;	key driver for the success of Hengistbury Head Outdoors giving the members ownership and ultimate control.
(2) the maximum rate of interest paid on shares is declared in advance of the period for which it is intended to be paid, whether in its rules or elsewhere;	The rules and Share offer document state the interest rate shall be set and declared in advance of the period for which it is intended to be paid and before any profit is determined”.
(3) the declared maximum rate of interest is the lowest rate sufficient to obtain the necessary funds from members who are committed to furthering the society’s objects;	The rate is capped at 5% or 3 % above Base rate by our rules and we are predicting to pay below bank base rate initially this is to ensure shares are a community investment rather than the risk of it becoming a donation or a financially driven investment
(4) in the event the society cannot afford to pay the declared maximum rate of interest, interest payments are reduced, or no interest is paid at all, without compensation in subsequent years;	Our rules state; Any (interest) payment to Members may only be made where the Society can reasonably afford to do so, having taken into account other liabilities and any contribution to the Society’s reserves.
(5) societies can justify a decision to pay interest at a particular rate, and be able to demonstrate the basis for that decision.	The rate of interest will be declared at the beginning of each financial year and will be justified on the basis of the previous financial performance and future projections based on sound business planning.

Charity Commission for England and Wales, and the Office of the Scottish Charity Regulator (OSCR) for Scotland take the following view: A power of a community benefit society to pay interest on shares is not incompatible with charitable status, provided that the following features are required by the society’s rules:

1. The interest rate is set at a level which is not in itself a motivation to buy shares and which the charity trustees can justify as being in the interests of the charity by reference to available commercial rates for borrowing.	The rate is capped at 5% or 3 % above Base rate by our rules and we are predicting to pay below bank base rate initially this is to ensure shares are an community investment rather than the risk of it becoming a donation or a financially driven investment
2. The cost is part of the society’s revenue	Our rules state Any (interest) payment to

expenses and met before the surplus is determined.	Members may only be made where the Society can reasonably afford to do so, having taken into account other liabilities and any contribution to the Society's reserves.
3. The rates are declared in advance of the period for which they will become payable, just as for a bank or building society account, and never retrospectively.	Our rules state The rate of interest will be declared at the beginning of each financial year and will be justified on the basis of the previous financial performance and future projections based on sound business planning.
4. There is a power to suspend interest payments in the interests of the society.	Or rules state: Any such payment to Members may only be made where the Society can reasonably afford to do so, having taken into account other liabilities and any contribution to the Society's reserves.
5. There is a power of the society to withhold repayment of the shares, either temporarily or indefinitely and to write the value down below the nominal £1.	Rule 28 d) states (d) The Board may, at their sole discretion, suspend the right to withdraw either wholly or partially and either indefinitely or for a fixed period. The suspension shall extend and apply to all notices of withdrawal which have been received and remain unpaid at the time the Board suspends the right to withdraw. Where the suspension is for a fixed period, such period may be extended from time to time by the Board.
6. The shareholding does not confer any rights to the underlying assets of the society.	
7. In the event of a solvent dissolution, shareholders can not be paid more than the nominal value of their shares.	<p><b>DISSOLUTION</b></p> <p>119. The Society may be dissolved:</p> <p>(a) In accordance with section 119 of the Act, by an instrument of dissolution.</p> <p>(b) In accordance with section 123 of the Act, in pursuance of a winding up order or by a resolution made or passed as directed in regard to companies by the Insolvency Act 1986.</p> <p>(c) In accordance with section 125 of the Act, after administration an administrator issues a notice to dissolve the Society without prior winding-up.</p> <p>120. If on the winding up or dissolution of the Society any of its assets remain to be disposed of after its liabilities are satisfied, these assets shall not be distributed to the Members, but shall be transferred instead to some other charity in law having objects similar to, or compatible with, the objects as may be decided by the Directors and recommended and approved by the Members in general meeting.</p>

