

Exeter Street Hall

Community Shares Buy Back Policy

1. Why a Policy is Needed

Community Benefit Societies such as ours are able to issue community shares with a low level of regulation and expense. Community shares have the legal technical name of 'withdrawable shares'. This means the shares cannot be sold or transferred to any other person. Instead Shareholders can only 'withdraw' their shares from the Society if the Board of Directors (referred to as the Directors) is willing to buy the shares on behalf of the Society.

The law says community shareholders cannot make a profit from their shares. This means Directors can only buy back the shares at the price the shareholders originally bought them, or for less if the Society goes bankrupt. The maximum money a shareholder can receive is what they put in.

The original share offer document of 2012 stated:

"Can I transfer or sell my shares?"

Shares cannot be transferred or sold. If a Member wants to withdraw any of their shares they need to apply to the Directors. This will always be at the discretion of the Directors who will judge if there are enough funds to make this possible. The earliest date the Directors will consider permitting withdrawals of shares is 2016"

To make reading and understanding this Policy easier, we will instead of using the legal word 'withdraw', use the words 'buy' and 'sell'.

Until April 2020 only a handful of requests had been received from shareholders asking if they could sell their shares to the Directors. The main request came from shareholders moving out of the area. The Directors declined to buy back any shares, explaining that whilst the building was being repaired and improved there was not the spare cash to buy back shares. However in 2020 with the closing of The Hall Get Involved Ltd and the transfer of assets to Exeter Street Community Hall Ltd, the Directors decided the new Society should plan how to honour all requests for the Directors to buy back shares. It soon became obvious that buying back shares could be complicated and a written policy was needed.

2. Issues to be Considered when Designing the Policy

A number of problems – some ethical, some financial – mean Directors have to find a solution that both honours the trust shareholders have put in the Society and ensures the long term financial security of the Hall as a community building.

Ethical

(1) Being trusted - Shareholders have waited 4 years longer than Directors advised in the original share offer document, for the opportunity to sell their shares. Over time more shareholders will move out of the area and want to sell their shareholding or may reach a point in life where they want their money. As an ethical business, the Directors cannot ignore those people who put their trust and money in buying the Hall for the benefit of the community of Prestonville and beyond.

(2) Being reassuring - Directors are planning to carry out a future share offer campaign, in the name of Exeter Street Community Hall Ltd, with the purpose of raising money to pay for building improvements. The share offer will be particularly aimed at attracting new people who have moved into the area and wish to become shareholder Members. Existing and new shareholders will expect some reassurance that in the future they will get their money back, if they want it.

Financial

(1) Repairs and improvements - Directors estimate a further £150,000 is required to be spent on repairs and improvements to bring the Hall up to modern venue standards that will attract hirers and their hire fees into the future. Traditionally we have relied on grants to pay for most of these projects. One of the risks of returning money to shareholders is that some grant funders may decide we do not qualify for their grant, because it looks as if we have spare money to give away to our shareholders.

(2) Covid – The arrival of Covid has drastically reduced income from hirings. The possibility of future lockdowns means forecasting future income is less certain.

(3) Making a financial judgement – The Directors will have to decide each year how much income can be spent on buying back shares. Directors will have to take into account the Society's expected income and expected costs. The Directors' responsibility is to ensure income is wisely spent; that the Society continues to prosper well into the future, so the remaining shareholder interests are also protected.

(4) Future uncertainty – Directors have no idea how many shareholders will want to sell their shares and what will be the £value of those shares.

(5) Managing unfairness – There may be shareholders who will see themselves as winners and others who may see themselves as losers. It will be tricky finding a solution that leaves everybody feeling they have had a fair opportunity to get a fair slice of a limited cake.

A simple example is, if only £1,000 is available to repay shareholders, do Directors pay the £1,000 to 20 different shareholders who bought £50 bundles of shares each – or do

Directors pay a single shareholder who wants £1,000 back?

Conclusion – An allocation formula is required. An allocation formula means Directors can be seen to be impartial and not using any prejudice or favouritism when deciding who should be repaid and how much they should receive.

3. The Policy

3.1 The Share Buy Back Fund – A Fund will be established to pay those shareholders who apply to sell some or all their shares. Each financial year (April to March) the Directors will decide in the January how much money can be put into the Fund to buy back shares. Shareholders who want to sell will apply in the February. Payment to shareholders will be calculated and made in the March.

How much money goes into the Fund each year will depend on what the Directors decide the Society can afford.

3.2 What the current Rules say about buying back shares – An important Rule for Exeter Street Community Hall Ltd regarding Directors buying back shares is:

Rule 26(a) All withdrawals shall be paid in the order in which the notices were received by the Society;

This means the Directors must buy shares in the order that shareholders apply to sell. Directors will publish a simple form for shareholders to complete if they want to sell some or all of their shares.

Rule 26(a) also means Directors cannot prioritise individual shareholders over others. So Directors cannot, for instance, prioritise those shareholders experiencing poverty over those who say are selling because they are moving out of the area. The advantage of this restriction is that Directors cannot use their own judgement in deciding who is more deserving than somebody else and then perhaps be criticised for allegedly showing prejudice or favouritism.

Just to confirm: when the Board of Directors buy back shares, they are buying them on behalf of the Society, the buy back shares do NOT get added to the Directors personal individual share holdings.

3.3 How many shareholders are there? – We had 920 individual shareholders as at March 2021. The number of shares they own varies a lot. For the purposes of this policy the shareholders have been divided into four Groups based on the number of shares they own, as shown in the table below:

Value of shares owned	Number of shareholders
Group 1 - £50 up to £100	683
Group 2 - £150 up to £350	165
Group 3 - £400 up to £750	42
Group 4 - £800 plus	30

The total value of shares held by all Members is £170,750

3.4 A fair allocation formula - As was said before, if only £1,000 is available to repay shareholders, do Directors pay the £1,000 to 20 different shareholders who bought £50 lots of shares each – or do Directors pay a single shareholder who wants £1,000 back? It is hard to find a solution that leaves everybody feeling they have had a fair opportunity to get a fair slice of what could be a limited cake each year.

To find a fair solution the Directors have designed an allocation formula. The formula has been designed with the intention that:

- if the total money value of applications for selling shares is more than the money in the Share Buy Back Fund, then ideally everybody should get something (even if it is only £50 that year);
- however, many will not get everything they wanted immediately;
- and of course, in the situation that the number of individual shareholders applying to sell is more than the number of £50 lots in the Share Buy Back Fund, then some applicants will get nothing that year.

3.5 The allocation formula design - Each shareholder will be paid in £50 lots until the Share Buy Back Fund for that year is spent. How many lots of £50 each shareholder receives, will depend on the total number of shareholders applying, how much they want and the available money in the Share Buy Back Fund.

The £50 lots will be paid out in a series of steps, with the higher £value shareholder applications receiving more lots of £50.

How this allocation formula will work is shown in the example below, where the £value of shareholder applications is greater than the money in the Share Buy Back Fund.

Example – Dividing a £500 Share Buy Back Fund amongst four shareholders who apply for £2,000

This is a simplified example showing how the allocation formula works.

- Column 1 shows the £value of four individual applications, totalling £2,000.
- Column 6 shows the total amount actually repaid to each shareholder.
- Columns 2 to 5 show how the £50 lots are allocated to each applicant. Shareholder A applies for £100. So they will receive just one lot of £50 in Step 1. In contrast shareholder D applies for £1000 and so is eligible to receive £50 lots from Steps 1, 2, 3 and 4.

1	2	3	4	5	6
Shareholder applications of £2000 total	Step 1 £50+	Step 2 £150+	Step 3 £400+	Step 4 £800+	Total £value of repayment
A applies for £100	50				50
B applies for £250	50	50			100
C applies for £650	50	50	50		150
D applies for £1,000	50	50	50	50	200
TOTAL paid	200	150	100	50	500

So:	a £100 application would receive £50	(50% of what they wanted)
	a £250 application would receive £100	(40% of what they wanted)
	a £650 application would receive £150	(23% of what they wanted)
	a £1,000 application would receive £200	(20% of what they wanted)

If the Share Buy Back Fund was doubled to £1,000, then Steps 1 to 4 (columns 2 to 5) would be repeated until the Fund has been spent.

The example shows that:

- Firstly, the greater the number of the shares an individual shareholder applies to be sold, the greater number of £50 lots these shareholders will receive. However, they are more likely to receive a lower % repayment of the total value of the shares they have applied to sell.
- Secondly, in contrast, shareholders applying to sell fewer shares, although receiving fewer £50 lots, are more likely to receive a higher % repayment of the total value of the shares they have applied to sell.

These two results show the thinking behind the formula, that if requests for buying back shares are greater than the money in the Fund, then everybody should get something, although some will not get everything they wanted immediately. As mentioned before, the only exception is if the number of shareholders applying is more than the number of £50 lots in the Share Buy Back Fund, then some will get nothing that year.

In any year, those shareholders who apply to sell and only receive part or nothing of what they requested will be asked if they want to continue their application the next year. If they say yes, they will be automatically put on the next year's application list. Their next year automatic application will be limited to the £value, yet to be repaid, from their original application. So if they applied for £400, but only received £300, then the next year they can automatically apply for the remaining £100. However, if the next year they decide to also sell additional shares they own, they will have to make a completely new application to sell these shares, including the remaining £100.

3.6 What the allocation formula looks like in real life – The Directors have designed some examples of what the results would be when various numbers of shareholders apply to sell various amounts of shares and the amount of £s in the Share Buy Back Fund is limited at £2,000. These examples are in the spreadsheet document “Community Shares Buy Back Policy Practical Examples”. The examples are particularly important for high value shareholders to look at.

3.7 The Share Donation Scheme – This new Scheme allows existing shareholders to give away (donate) part or all of their shares to the Society. This gift (in lots of £50) would be recorded in the Share Register.

The effect of the donation would be to reduce the debt the Society faces in repaying shareholders in the future. The Scheme will only be suitable for those shareholders who are confident to give their money away, as any donated shares will not be returned to them in the future, even if they want to change their mind. Obviously the Directors would encourage these shareholders to keep £50 of shares, so they continue as Members and vote at the AGM.

Any shareholders wishing to donate to the Scheme should send an email to Hall Secretary Graham Thomas (secretary@exeterstreethall.org) who will return a simple form for the shareholder to complete. This can be done at any time of the year.

3.8 Review – If any problems are found in carrying out the Policy, the Directors will try to reduce the effect of the problems. As this Policy is new it will be reviewed by the Directors every year and changed if necessary.

4. Conclusion

The Directors have had to balance the needs of shareholders who want to sell with the future financial security of the Society and the needs of shareholders who choose to keep their shares. Therefore Directors ask Member shareholders to only apply to sell some or all of their shares if they need the money. If you are a Member who feels you can keep your shares with the Society, please do so. If the Directors can manage an orderly small queue of Members wanting to sell, then year on year people who want to sell shares should eventually get what they want, even if they don't get everything they want immediately.

5. Frequently Asked Questions

Q1. What are the choices for me in deciding what to do with my shares?

A1. You have four clear choices:

1. Keep them - If you don't need the money right now, just hold on to your shares. Continue to vote at AGMs and enjoy being a shareholding Member of a great volunteer-led community organisation.
2. Sell some - If you do need some money then apply to sell some of your shares. If you keep a minimum of £50 of shares, you will continue to be a shareholding Member and continue to vote at AGMs. You might not get all your money in the first year.
3. Sell all - You can apply to sell all of your shares, but of course you would then no longer be a Member and you will not be able to vote at the AGM. You might not get all your money in the first year.
4. Donate - If you don't need to sell your shares either now or in the future, then consider donating some or all of your shares to the Society. Your donation will help reduce the financial debt of the Society. But do remember you cannot get your shares or money back if you later change your mind. Plus if you want to remain a Member and vote at AGMs, you must keep a minimum of £50 of shares in your name.

Q2. If I apply to sell my shares and get paid nothing or just part of what I asked for, what happens next?

A2. The Directors will ask if you want to apply again the next year to sell those remaining shares. If you say yes, you will automatically be included the next year.

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