

Community Shares Mark V2.1

Applicant organisation: Fibre for Rural Nottinghamshire Limited

Reviewer: Jim Brown

Lead reviewer

Date: 23 December 2015

Documents reviewed (list by name):

F4RN Business Plan v1.3; F4RN-Rules; Offer Document v1.3 (A4); Share Application Form v1.3

Final assessment

Recommendation (delete inappropriate) Approved

Summary comments on assessment:

The share offer documentation has been fully revised in line with the feedback based on the initial assessment. This offer now fully satisfies the Community share Standard Mark.

A. Offer document review

A.1. Style of document	Initial assessment	Initial comments/action required	Final assessment/ comments
A.1.1 Offer document is appropriate in length, style and comprehension for the target audience	Action required	Length and style appropriate for the audience. However, unsubstantiated claims about the service to be provided should be removed, or backed by supporting evidence in the business plan – see annotated copy of offer document.	Satisfactory: more evidence provided in business plan. Business plan includes evidence to support statements in offer document
A.1.2 Provides public access to supporting documents (business plan, governing document, annual accounts etc as appropriate)	Action required	Include a web link to the society's rules on page 6 where it explains what community shares are	Satisfactory: Linked provided to society rules on page 6
A.1.3 Contains opening summary of offer timetable, fundraising targets and min/max individual investment levels	Satisfactory	All this information is provided on page 1, albeit in a slightly long-winded narrative form	
A.2. Purpose	Initial assessment	Initial comments/action required	Final assessment/ comments
A.2.1 Communicates the community purpose of the investment and the reasons why capital is required	Satisfactory	Addressed on pages 2-4	
A.3. Community	Initial assessment	Initial comments/action required	Final assessment/ comments
A.3.1 Identifies and describes target community and its geographic and/or special interest focus. Explains the role of the community in bolstering the business model of the society	Satisfactory	Identifies target community on page 4	
A.3.2 Summarises the competencies and community credentials of the management committee and (any) senior employees	Satisfactory	Fully addressed on page 8	

A.4. Business model	Initial assessment	Initial comments/action required	Final assessment/ comments
A.4.1 Provides a very brief history of the society, its origins, and its current financial position	Satisfactory	New society registered in August 2015 – origins briefly described on page 2	
A.4.2 Articulates the business model, scale and ambitions of the society, highlighting any long-term plans that will affect share capital liquidity, share interest and other member interests	Action required	Page 4 outlines phases 1 and 2 of the investment plan, but does not provide evidence to support claims for share capital liquidity on page 6 or scope to pay share interest also on page 6. See A.6.1. and A.7.1	Satisfactory: Page 6 makes no reference to when shares might be withdrawable. Share interest payment statement modified. Business plan says may be 10 years plus before withdrawals possible and shows interest rate of 4% pa from year 4 onwards
A.4.3 Established societies only: Provides a narrative summary of the financial history of the enterprise, covering the previous three to five years, including its track record in paying share interest and allowing share withdrawals	Not relevant		
A.5. Capital requirements	Initial assessment	Initial comments/action required	Final assessment/ comments
A.5.1 States total capital requirements. Explains how capital will be used, distinguishing between expenditure on tangible assets, non-recoverable start-up costs, working capital, and (goodwill; acquisitions only)	Action required	Page 2 summary of capital requirements fails to distinguish between spending on fixed assets, first year operating costs, and working capital provision, although financial forecasts on page 7 indicate less than half of £150,000 requirement will be spent on fixed assets	Satisfactory: Text and financial projections changed and backed up by new data in business plan showing that £120,000 minimum target is justified

A.6. Financial projections	Initial assessment	Initial comments/action required	Final assessment/ comments
<p>A.6.1 Provides a narrative summary of the forecast financial performance of the society for the next three to five years, explaining how this affects members' financial interests</p>	<p>Action required</p>	<p>Page 7 provides 5 year summary financial projections which will not be easily understood by non-financially literate people. See comments on page 1 of this assessment regards the accuracy of these projections, especially regards the treatment of depreciation. The offer document needs to provide a simple and accurate narrative explaining that the society faces very high start-up costs, precipitating losses that could take many years to clear at the forecast level of take-up, and this will mean that the society will be unable to afford share interest payments or withdrawals – see comments on Business Plan</p>	<p>Adequate: Offer document still very reliant on readers being able to interpret financial projections. However, it does show when share interest can be paid, that there are no share capital withdrawals in first seven years, and substantial cash reserves.</p>
A.7. Targets, timetable and contingencies	Initial assessment	Initial comments/action required	Final assessment/ comments
<p>A.7.1 States the minimum, optimum and maximum fundraising targets for share offer, the offer timetable, and the contingency arrangements if the offer is under- or over-subscribed</p>	<p>Action required</p>	<p>Need to state that if min target of £120,000 is not reached then the initiative will not proceed and applicants' money will be returned. Also need to state that offer will be closed when max target of £150,000 is reached. It should provide more details of its plans for a second offer and phase two of the development</p>	<p>Satisfactory: Now states offer will not proceed if minimum not reached and closed when maximum is reached. Phase two refers to further capital requirements</p>
<p>A.7.2 Outlines other sources of capital including any grant or loan agreements already in place, including any contingency arrangements</p>	<p>Satisfactory</p>	<p>No other sources of capital are referred to either in the offer document or business plan. It might help to make it clearer that the initiative will not proceed if it fails to reach its minimum target</p>	

A.8. Member investment	Initial assessment	Initial comments/action required	Final assessment/ comments
<p>A.8.1 States the minimum and maximum amount an individual can invest. Limits are consistent with community demography and capitalisation of the society</p>	Action required	Min investment is high, but understandable in the circumstances. The maximum individual investment should be reduced to £15,000 to avoid over dependency on a small number of large investors.	<p>Satisfactory: Max individual investment reduced to £15,000 but minimum increased to £1,000; the management committee believe there is local support for this high minimum which they believe is necessary to achieve the fundraising targets.</p>
<p>A.8.2 Correctly describes any other provisions relating to the purchase of shares, such as age restrictions, corporate membership, joint membership and nomination rights</p>	Satisfactory	Dealt with on page 5	
A.9. Member benefits and obligations	Initial Assessment	Initial comments/action required	Final assessment/ comments
<p>A.9.1 Explains any restrictions and aspirations relating to share liquidity and the terms and conditions for withdrawal</p>	Action required	Although the offer document correctly states the provisions in its rules for share interest and withdrawals, there is insufficient evidence to support these statements as aspirations – more realistic aspirations need to be stated. Reference should be made to the society’s asset lock, or at least to the effect of the asset lock, which means that the value of shares can never be more than what members paid for them (and may go down in value)	<p>Satisfactory: Text on share withdrawals changed and clear reference to asset lock and impact on share value.</p>
<p>A.9.2 Explains any restrictions, aspirations or commitments relating to share interest, member dividend and/or annual membership subscriptions</p>			

<p>A.9.3 Correctly describes any tax relief that may be available for members buying shares</p>	<p>Borderline</p>	<p>Page 6 includes box on SEIS giving a strong impression that the scheme will definitely qualify for tax relief – this should be less emphatic</p>	<p>Satisfactory: new text stating that the investment will not proceed if SEIS is not approved</p>
<p>A.10. Society information</p>	<p>Initial assessment</p>	<p>Initial comments/action required</p>	<p>Final assessment/ comments</p>
<p>A.10.1 Correctly provides basic information about the type of society, governance, voting rights, member eligibility, terms and conditions applying to shares</p>	<p>Satisfactory</p>	<p>Membership rights, terms and conditions set out on pages 5-6, but need to add weblink to the society’s rules</p>	
<p>A.10.2 Gives prominent warning that offer is unregulated, the risk of losing some, or all, of the amount invested, and no rights to statutory compensation or complaint</p>	<p>Borderline</p>	<p>Warning on page 1 could be strengthened by stating that “you could lose some or all of the money you invest”.</p>	<p>Satisfactory: Text adopted suggested wording</p>

B. Application form review

	Initial assessment	Initial comments/action required	Final assessment/ comments
B.1. The application form is simple, relevant and clear	Satisfactory with one exception	Overall, very clear, simple and relevant application form. However the unregulated risk warning needs to be changed. There is no need to restate that the society is registered by the FCA; this could confuse readers into thinking the share offer is regulated by the FCA. Also this statement should say “you could lose some or all of the money you invest” rather than “you should only ever invest what you are prepared to lose”.	Satisfactory: text changed as suggested
B.2. The details on the application form are consistent with the offer document	Satisfactory	Fully consistent	
B.3. Any special arrangements (joint ownership, nomination on death, shares as gifts, corporate membership applications etc) are clearly explained either, on the application form or in the offer document	Satisfactory	Simple focus on ordinary member applications	
B.4. Data protection, privacy and electronic communications consents obtained	Satisfactory	Fully addressed	
B.5. Payment arrangements do not expose applicants' money to undue risks prior to shares being issued	Satisfactory	States intention not to draw down payments until targets have been met	
B.6. Money laundering provisions (if considered relevant).	Satisfactory	Payments restricted to UK bank account holders	

C. Governing document review

Society name	Fibre for Rural Nottinghamshire Limited
Registered number	7186
Date society registered	5 August 2015
Name of model rules (if used)	Community Finance 2014 V1
Sponsoring body	Co-operatives UK
Type of society	Community benefit society
Identify any significant amendments that this society has made to the model rules (if used)	No amendments – selected options highlighted below

1. If the society has used model rules, assess any of the following rules that have been personalised or amended, to determine whether this has been done in a manner consistent with the underlying principles community shares? If the society has bespoke rules, please assess all the following rules for consistency with the underlying principles of community shares.

	Initial Assessment	Initial comments/action required	Final assessment / comments
C.1.1. Objects	Satisfactory	Appropriate objects for the purposes of this society	
C.1.2. Membership categories	Satisfactory	As per model rules	
C.1.3. Share typology	Satisfactory	As per model rules	
C.1.4. Share withdrawal terms	Satisfactory	As per model rules	
C.1.5. Composition of management committee	Satisfactory	Rules 64 and 91 opted for simple flexible board composition option	
C.1.6 Asset lock	Satisfactory	Opted for prescribed asset lock (Rules 58, 97 and 108)	

C.1.7. Quorum at general meetings	Satisfactory	Rule 43 inserted option of 3 members or 10% of membership whichever greater as option	
C.1.8. Voting at general meetings	Satisfactory	As per model rules	
C.1.9. Age restrictions	Satisfactory	As per model rules	
C.1.10. Minimum/maximum shareholding	Satisfactory	As per model rules	
C.1.11. Application of surpluses	Satisfactory	As per model rules	
2. Are the rules covering the following matters consistent with the contents of the offer document?			
	Initial assessment	Initial comments/action required	Final assessment / comments
C.2.1. Membership criteria	Yes		
C.2.2. Voting rights and governance	Yes		
C.2.3. Member investment levels	Yes		
C.2.4. Share withdrawal	Yes		
C.2.5. Share interest	Yes		
C.2.6. Use and application of surpluses	Yes		
C.2.7. Asset lock	No	No mention is made of the asset lock in the offer document (see A.9.1 and A.9.2 above)	Satisfactory: offer document now refers to asset lock and explains impact on members

D. Business plan review

D.1. Purpose	Assessment	Comments/action required	Final assessment/ comments
<p>D.1.1 Describes the long-term vision of the society and its ambitions regarding scale, reach and sustainability, highlighting any long-term plans that may affect share capital liquidity, share interest and other member interests, such as future calls for capital, or plans to wind-up the society at some future point in time</p>	Action required	<p>Although the business plan clearly articulates the long term vision, purpose and plans of the society, it does not provide sufficient evidence to support assertions in the offer document regards share capital liquidity or interest payments – this can be addressed by including more accurate and realistic financial projections</p>	<p>Satisfactory: new financial projections are consistent with text on long term plans of society and impact on members’ interest</p>
<p>D.1.2 Articulates the society’s community purpose, focusing on the needs, concerns or aspirations within target community</p>	Satisfactory	Addressed in pages 4-7 opening remarks and summary	
<p>D.1.3 Provides statements of purpose that are consistent with the type of society it has chosen to be, and its objects</p>	Satisfactory	Briefly addressed in Section 1.1	
<p>D.1.4 Explains the purpose of the share offer, what market opportunities will be addressed by the investment plan and demonstrates how this supports the objects of the society</p>	Satisfactory	Addressed in Section 1	

D.2. Community engagement	Assessment	Comments/action required	Final assessment/ comments
D.2.1 Defines the target community and provides demographic data on the scale and nature of this community	Adequate	Section 3.3 and Appendix 2 provide very brief narrative evidence of the community engagement work to date	
D.2.2 Provides evidence of community support for the objects and purpose of the society			
D.2.3 Estimates the proportion of the target community that will become members of the society and the anticipated median and average investment of these members			
D.2.4 Sets out a comprehensive strategy for attracting an audience, building a supporter base and communicating with potential investors and members	Adequate	Community engagement plan outlines share offer campaign	
D.2.5 Provides evidence of a share offer campaign plan identifying promotional activities, events, PR and social media			
D.2.6 Describes the rationale for using one or more share offer application channels (paper-based systems, crowd funding platforms, own website etc). Demonstrates that it can support each channel and has mechanisms in place to integrate channels			

<p>D.2.7 Identifies strategies for engaging members in improving the competitiveness of the society and relationships with other stakeholders</p>	<p>Not addressed</p>	<p>This area has not been addressed, and although it is may help the society to improve its competitiveness it is not essential for gaining the Standard Mark</p>	
<p>D.2.8 Established societies only: Evidence that existing members have been involved in the process leading up to current share offer and have been given the first option to invest in the society</p>	<p>Not relevant</p>		
<p>D.3. Finances</p>	<p>Assessment</p>	<p>Comments/action required</p>	<p>Final assessment/ comments</p>
<p>D.3.1 Established societies only: Provides summary of annual accounts for previous three years, accompanied by an assessment of the impact the investment plan will have on operating performance.</p>	<p>Not relevant</p>		
<p>D.3.2 States total capital requirements. Explains how capital will be used, distinguishing between expenditure on tangible assets, non-recoverable start-up costs, working capital, and goodwill (if relevant)</p>	<p>Action required</p>	<p>Section 5.1 Capex needs to provide much more information to distinguish between spending on fixed assets and first year operating costs. Also need to make position on VAT clear through provision of cash flow summary. Also needs to show how full capex of £162,000 translates to core costs of £112,000 quoted in offer document. Also need to explain how data provided in section 5.1 translates to financial projections in Appendix 1, especially fixed costs in balance sheet and Expenses in P&L</p>	<p>Satisfactory: new financial projections justify minimum and maximum fundraising targets illustrating position if maximum target is achieved, but showing scope to proceed if only minimum target is achieved.</p>

<p>D.3.3 Provides evidence that suitable premises (land) or any other major fixed assets have been identified and price agreements have been reached with the vendors</p>	<p>Action required</p>	<p>Section 4 on network design articulates the sensitivity of the plan to obtaining wayleave agreements, but it also needs to demonstrate that viable contingencies are in place to deliver what is promoted in the offer document within the planned budget</p>	<p>Satisfactory: New section 4.1 on Wayleaves reports on current position, emphasises need for community support, but outlines contingencies if this is not fully forthcoming</p>
<p>D.3.4 Acquisitions only: Provides evidence of how the business valuation has been arrived at, and how it will be represented in the society's balance sheet (fixed assets, net current assets, goodwill etc). Evidence of due diligence, identifying any contingent liabilities</p>	<p>Not relevant</p>		
<p>D.3.5 Provides income and expenditure forecasts for first three years (or more) of the investment plan, distinguishing between gross profit, operating profit and net profit. Identifies when the society will achieve profitability, overcome any initial losses, and be in a position to pay share interest</p>	<p>Action required</p>	<p>Need to re-examine treatment of depreciation and provide more detail about operating expenses (eg any provision for share interest?) to give confidence that P&L projections are reflect aspirations expressed in the offer document. Insufficient evidence to support aspiration expressed in Section 6.1 to pay share interest</p>	<p>Satisfactory: New financial projections show impact of depreciation and scope for share interest. Section 5.1 Includes statement on long term re-investment strategy.</p>
<p>D.3.6 Provides cashflow forecast that supports the forecast working capital requirements and is consistent with the potential sources of working capital</p>	<p>Action required</p>	<p>Need to include cash flow summary to demonstrate treatment of VAT in the short term (detailed first year) and long term (5 years?) to demonstrate share liquidity</p>	<p>Satisfactory: Cash flow summary for first three years justifies working capital requirement of £20,000</p>

<p>D.3.7 Provides balance sheet projections that demonstrate how the society will provide share liquidity to members, taking into account forecast profitability, profit distributions (share interest, dividends), depreciation, amortisation, member churn, and reinvestment by the society</p>	<p>Action required</p>	<p>Balance sheet needs to be adjusted to be reconciled with cash flow summary and revised P&L projections and show when the society might have positive reserves, which are essential before the society can allow shares to be withdrawn (see Section 6.1 of Business Plan)</p>	<p>Satisfactory: Balance sheet and P&L projections now reconciled – although illustrates that society still has negative retained earnings after 7 years. Section 5.1 contains statement about long-term re-investment strategy of society</p>
<p>D.3.8 Gives details of all planned sources of capital, including grants, short, medium and long-term debt, equity and reserves. Explains how the fundraising mix relates to the minimum, optimum and maximum community shares targets. Identifies key assumptions and justifies proposed gearing ratios</p>	<p>Satisfactory</p>	<p>Section 6 explains the position of the society regards project funding and explains where it stands on grants and other forms of support</p>	
<p>D.3.9 Demonstrates that contingency arrangements are in place to address any under- or over-funding resulting from the share offer</p>	<p>Action required</p>	<p>The reference in the offer document to consider second share offer if this offer is overfunded needs to be clarified in the business plan, and supported by additional evidence and detail.</p>	<p>Satisfactory: Text changed in offer document and business plan so that they are now consistent with each other regards contingencies</p>
<p>D.3.10 Provides evidence to support any references in offer document to the availability of tax relief on investment</p>	<p>Satisfactory</p>	<p>Plans to restrict this share offer to £150,000 for the purposes of SEIS simplifies the administration of this scheme</p>	

D.4. Organisation and governance	Assessment	Comments/action required	Final assessment/ comments
<p>D.4.1 Provides evidence that the choice of type of society, model rules and sponsoring body is consistent with the enterprise's purpose, objectives and target community</p>	<p>Not addressed</p>	<p>Aims and objects of the initiative are consistent with the legal form adopted, but not analysed in business plan. Not an essential matter for the Standard Mark</p>	
<p>D.4.2 Explains why its registered rules are deemed to be fit for the purpose of issuing community shares. Any significant rule changes are identified and justified as being consistent with the purpose of the society and community shares</p>	<p>Satisfactory</p>	<p>Adopted model rules without amendments. Options selected in model rules consistent with objects and clearly expressed in offer document</p>	
<p>D.4.3 Demonstrates that the proposed organisational structure is appropriate, connecting members to the enterprise activity. If share capital is to be invested in a subsidiary entity, it is done in a way that does not compromise the terms of the share capital</p>	<p>Adequate</p>	<p>Simple structure assumed, reliant upon management committee and volunteer support in the first instance</p>	
<p>D.4.4 Describes the competencies of current management committee, and the division of responsibilities between the management committee and employees</p>	<p>Satisfactory</p>	<p>Section 3.2 provides biographical details of all management committee member, outlining relevant competencies</p>	

D.4.5 Identifies strategies for engaging members in the governance of the society through general meetings, the management committee and other participatory activities	Adequate	Section 3.3 outlines community engagement strategy to promote share offer; Section 4 emphasises importance of volunteer involvement in the society, especially in keeping start-up costs low.	
D.5. Trade activities	Assessment	Comments/action required	Final assessment/ comments
D.5.1 Provides evidence of market opportunity, customer base, pricing, product offer differentiation, and proposed sales channels to justify sales forecasts	Adequate	Hard to assess because I lack sufficient sector specific knowledge, but biographies of management committee give confidence that those involved have sufficient composite skills to manage the enterprise, and make realistic assessments of it needs, market opportunities, capacity and outlook	
D.5.2 Identifies requirements for premises, equipment, staffing levels, non-recoverable expenses, IT systems and work methods to achieve profit forecasts			
D.5.3 Identifies all the main trade competencies required by the trade activity envisaged in the investment plan. Explains how these competencies will be acquired in order to deliver the operational performance forecast in the plan			
D.5.4 Identifies principal risks associated with proposed business model, and provides credible contingencies to mitigate these risks	Action required	A risk register highlighting key risks and plans for mitigation would give greater confidence to invest in this initiative	Satisfactory: Risk register now included