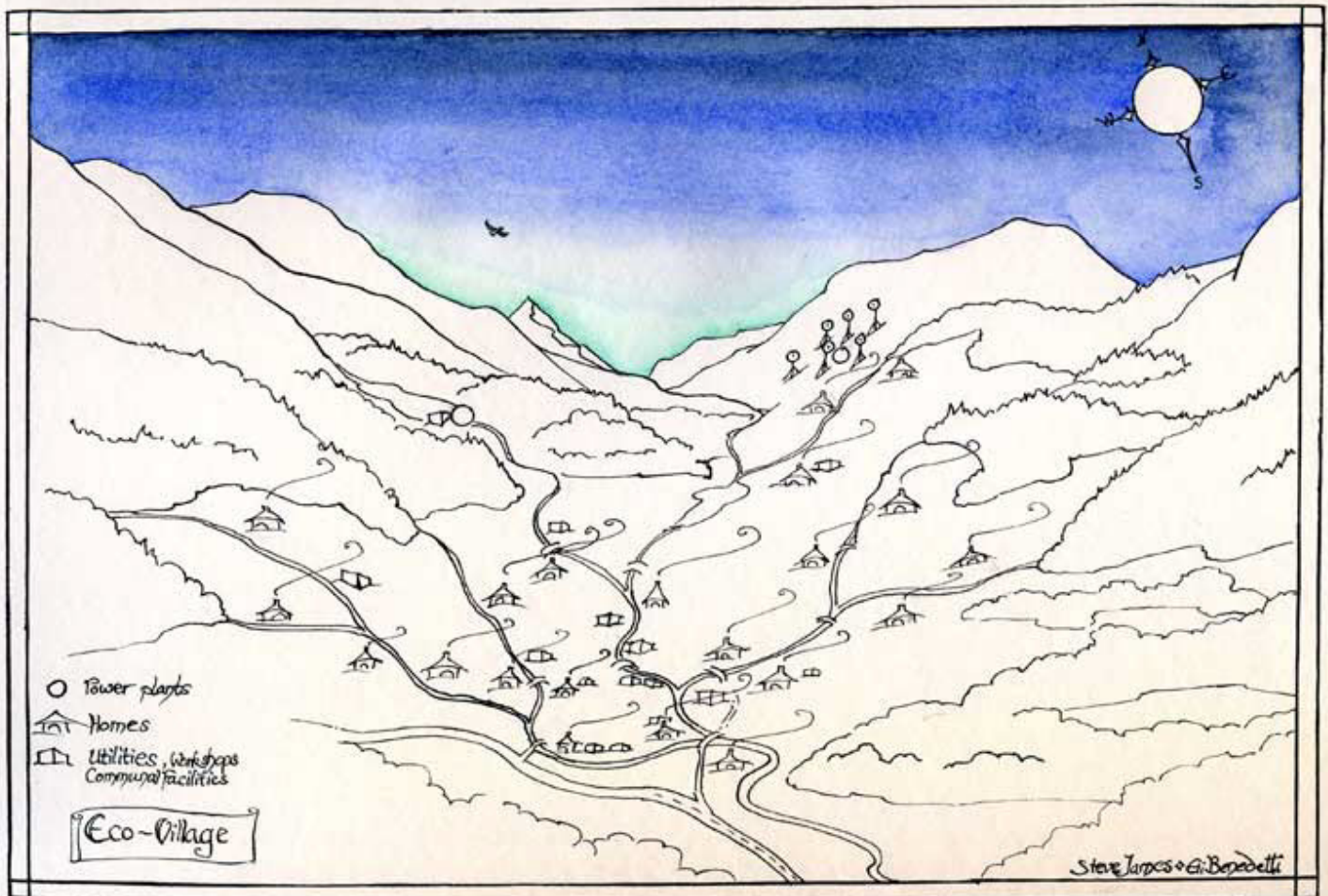


Outline of Proposed Legal & Financial Structure for Bodhi/SCI Eco-Village Project

Rev 2.2



Produced by the Legal & Financial Structures
Working Group

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"Communities, like all intimate relationships, have to solve the problem of preserving both closeness and individuality. One danger is that the individualistic refugees from social repression who are drawn to voluntary communities will be so bent on 'doing their own thing' that the community will fly apart into anarchy. The opposite danger is that the community will be so insistent on total absorption into its goals that personal individuality will cease to exist." Thom Hartmann - *The Last Hours of Ancient Sunlight*.

Whilst no structure can guarantee success, some will assist it better than others, or protect against the most obvious pitfalls. A well thought out skeleton will allow the body of a community to evolve effectively and organically over time, without losing the overall shape of the dream. It starts with its feet in the present, dealing with money, law and power as they exist, and uses the best of these to intelligently reshape concerns which should in time cease to be such: security, warmth, food, energy, shelter, health, trust, belonging, our true common wealth.

Just as there are fundamental body plans in nature, there is more than one way to frame a community. This suggestion is based in the desire to have no private ownership of land or buildings, whilst retaining the right of members to recoup their investment, or benefit financially from their contribution to the community whether they remain there or no, a mechanism which can also be used as a means of inheritance.

The Bodhi/SCI Financial & Legal Structures working group (*hereinafter referred to as the **F&LS***), spent several months investigating the many possibilities, seeking a structure that would encompass the stated goals of the Eco-Village project within as simple, fair and flexible format as we could find. This document explains the structure we recommend, how it functions, and how it meets the various criteria of both Bodhi, SCI and the legal framework presently existing in the UK. To make for easier reading the details of these correlations are mainly in the footnotes. Appendix 2 summarises the other options and the reasons they were rejected.

The structure we recommend is a specifically defined form of Industrial & Provident Society (*hereinafter referred to as an **IPS***), a legal form of co-operative first developed about 150 years ago to allow groups of people to combine resources to purchase land and build their own homes, more commonly known then as a Friendly Society. Hundreds of these were formed and many later merged to become the familiar high street building societies.⁽¹⁾ Although there are of course certain legal formalities that must be observed in the creation and running of an IPS, its stated purpose, precise structure and form of governance can vary widely, needing only clear definition in the constitution, technically known as the Articles of Association (*hereinafter referred to as the **ruleset***). Although changes can be made to this ruleset over the lifetime of the IPS with the agreement of both sufficient voting members and the regulating body (currently the Financial Services Authority, *hereinafter referred to as the **FSA***), this is generally an expensive and time-consuming exercise not to be undertaken lightly. Therefore it is of some importance that the chosen ruleset is fit for purpose from the outset.

To this end there exist sets of 'model' rulesets, previously accepted by the regulating bodies, which are used as the building blocks for the creation of any new IPS. Changes or additions to these model rulesets are (if accepted) charged on a sliding scale.⁽²⁾ It is also advisable to apply for registration under the guidance of a registered proposing body, who will guide you through the application process and make sure everything is in order. They of course charge for this and again a range of fees apply.⁽³⁾

At this point you are probably wondering what planet the F&LS is living on if this is their idea of simple structure and minimal cost! Trust us, every one of these possible legal setups involve heavy professional fees, registration charges and often massive running costs (*see appendix 2*). Although the IPS involves more work and careful thought to setup, once in place it is robust, cheap and easy to maintain.

It should now be apparent that the heart of an IPS is its ruleset. Apart from the required standard clauses relating to office holders, voting rights, quorums, frequency of meetings etc., there are some very specific options the Eco-Village project will need to specify and/or include to achieve a structure suitably tailored to its own requirements. Explained in more detail below, in summary these are:

- **Dissolution clause** ~ define the asset lock, ensuring perpetuity of communal ownership.
- **Fully Mutual status** ~ defines and guarantees communal ownership of all IPS assets, land, buildings, equipment etc.
- **Par Value membership** ~ defines the limit of individual liability for any debts the IPS may incur, and equalises the influence of share ownership.
- **Core Principles** ~ foundational principles agreed quintessential, non-negotiable aspects of the community's aims now and for the future.

- **Terms of Membership** ~ allows internal decisions regarding behaviour and residency within the community to be backed with the force of UK law.
- **Loanstock Issue** ~ the heart of the financial setup - detailed below.

Dissolution clause (*For a model example of these please see appendix 1*)

A major concern is to avoid the not infrequent scenario where a co-operative, property owning venture ends in tears with one person or small group remaining as the sole, or controlling member(s), and thus *de facto* owners of the co-operative assets, which then become privatised. This is accomplished by demutualisation.⁽⁴⁾ The solution to this is an Asset Lock. This is a clear statement of what is to happen to any physical and financial assets if the IPS should be dissolved. Usually stating that on dissolution of the IPS the assets can only be passed on to a similar body with similar aims, cannot be sold or kept for their own use by individuals. This lack of scope for private gain is crucial to the IPS's community enterprise status, in turn relevant for funding applications, also any pension and housing benefit claims. It expresses both a hope for the future and a core vision, that the land be available for its intended use in perpetuity.

Fully Mutual status

This is the technical term for the joint and common ownership of the IPS assets. Its legal form is a registered co-operative, which is a legal body which may own property, employ people, collect rent, raise loans, issue shares and loanstock and be sued by debtors.⁽⁵⁾ It is similar in many respects to a limited company, but one subject to democratic control by all its members, and thus seen as less attractive to commercial lenders because of the *relative* difficulty in forcing sale of assets to recover debts. This can however still be done, so commercial secured loans would have to be carefully considered because in the event of serious default, especially of a large sum, the community would likely be harmed, or even destroyed. The asset lock described above can only protect against internal threats.

The adoption of fully mutual rules is recommended as the structure they enable is open and democratic and because fully mutual status is simpler than it might at first appear. It allows you to be large or small and creates the greatest potential for self-management. It allows exemption from both Corporation Tax and Capital Gains Tax though you may be required to pay Corporation Tax and then reclaim it. Otherwise you only pay tax on interest gained on reserves.⁽⁶⁾

Par Value membership

This literally means face value, so shares are only ever worth what was paid for them and cannot be speculatively traded or change in value over time. Every member holds one share of equal value, often a nominal sum such as £1, though there are arguments in favour of a higher, but still equal share price.⁽⁷⁾ Every member must hold a share to qualify as a voting member. The value of the share also legally limits the extent of liability the individual shareholder is exposed to with regard to debts incurred by the IPS itself. This is a valuable protection should the IPS debts exceed its assets in a doomsday scenario.⁽⁸⁾ The share amount is repaid when leaving the IPS.

Some IPS' decide against par value, e.g. Lammas, to allow greater share capital, defining the one member, one vote principle in their ruleset.⁽⁹⁾ Voting rights in all forms of IPS structures are restricted to one member, one vote by law. Other concerns with a non-par value setup include increased personal liability; greater tax liability; having two separate forms of investment to manage (loanstock and shares), and the fact that every shareholder is entitled to vote, whether resident or no.

Core Principles

Not so much a specific clause, as a range of rules spread through the general ruleset sharing a common purpose. A living community must be able to define itself day to day, year to year, develop and respond organically as needs arise. It is probably wiser to leave most such decisions to the ongoing governance of the community itself. Suitable mechanisms for decision making and dispute resolution, planning and policy will need to be in place, but that place is not here, 'carved in stone' in the ruleset. If at all, only those aspects deemed most fundamental to the nature and purpose of the community should be defined here. Those without which the community would no longer be recognisable. Each community must choose its own priorities.

It is also worth bearing in mind that the IPS can have an extensive set of 'secondary rules' which do not need to be approved by the FSA, and can be defined and changed by any agreed process within the membership. These would be the natural home for more detailed concerns specific to an individual community, flexible, adaptable and accountable.

What would perhaps be most useful under this heading are clear statements of responsibility. Which person, group or process is responsible for final arbitration, the limits of executive powers, the method(s) for decision making, to be decided by consensus or majority vote, if the latter, by what proportion etc. Maximum terms and frequency for office holders, etc. etc. All of these can as easily be dealt with by internal governance, more flexible and responsive to current needs. Each community must choose what, if anything, it considers sacrosanct and beyond expediency.

Terms of Membership

The fully mutual status requires that all tenants are members and all members are either tenants or prospective tenants. Fully mutual rules do not allow non-members to live in the co-operative's accommodation so everyone is on an equal footing with shared responsibilities as landlords and tenants. The IPS can decide who can and cannot be a member.⁽¹⁰⁾ Anyone whose membership is revoked cannot remain a tenant (and thus resident) of the community. It is the community's final sanction if all else fails, backed up with the force of UK tenancy law.

Such drastic action is inescapably destructive, yet even more so is inaction. It would be wise to have the path to it clearly defined as part of the core principles. By this is not meant the specific grounds which lead to it, but the sequence which must be followed in the event of such a dispute failing to be resolved by previously agreed processes. Of course it is to be hoped that such action is never required. But if things do go this far, it is to every one's distinct advantage that it is dealt with promptly and fairly. We are part of one another and unattended, this connection quickly becomes gangrenous in a small community harbouring discontent.

The reverse decision, as to who should be allowed to join, is also determined by the IPS's ruleset, individual decisions typically being made by the elected committee. Members join as prospective tenants who will be subject to a separate trial residency process, having their share refunded if unsuccessful.

Loanstock Issue (*introduction and ruleset requirements only - see below for details*)

Loanstock is a form of finance uniquely available to an IPS, which has many advantages for integrating the disparate wealth and circumstances of various potential residents. Unlike share ownership, purchasing loanstock does not give members extra status within the IPS. The ownership of loanstock is a quite separate matter from membership of the IPS. Likewise, non-members who own loanstock are not permitted to have any influence at all in the running of the IPS.⁽¹¹⁾ It is a purely financial transaction most like opening a deposit account. Because of its similarity to banking, there are restrictions as to how often loanstock can be issued, overall issue amount, purpose of the issue and how long a window the issue is available to subscribe to.⁽¹²⁾

Nevertheless this system of fixed term stock, paying set interest rates to a range of members, investors and supporters remains a flexible and well-proven means of raising targeted finance. It opens the door to a whole raft of opportunities for investment by members in their own future. In the ruleset it is required to declare the maximum amount of loanstock that will be issued by the IPS, how interest rate limits are determined and to formally reserve the right of early or deferred repayment if deemed expedient by the IPS.⁽¹³⁾

Finally, any necessary legal empowerment for the IPS to exchange internal currency into loanstock should be included here as this will be crucial in creating the equality of opportunity required to ensure as wide a range of potential residents as possible (see below).

Financial Strategy

Money is one more resource to be used wisely by a sustainable eco-community. It has and does take many forms, and integrating various types of money into the community allows all kinds of investment from hands-on labour to wads of cash to be valued fairly against one another. Again what is proposed here is only one possibility, albeit one that we think covers the widest ground. This is a seemingly complex proposal, but is in essence simple. It aims to value everyone's contribution according to its merits, no matter what form that contribution may take. It aims to utilise the flexibility of exchange true money offers to allow the greatest freedom of choice to its members in how they contribute and how they benefit from membership of the community. Money is only a system of exchange, a tool that by itself can guarantee nothing. It can only facilitate choices and decisions defined by other processes, not create them.

First the forms of money involved:

- **IPS Shares** ~ Nominal fixed amount, not used as part of the finance plan.
- **Loanstock** ~ Fixed term, fixed interest sterling loans repayable on completion with interest paid annually or as a lump sum on completion.
- **LETS** ~ Local Enterprise Trading System. Also known as local currency. For more info see: <http://www.letslinkuk.org>
- **Timebank** ~ Banking system based on everyone's hours being as long as each others. For more info see <http://www.timebank.org.uk>

It is envisaged that potential residents are of all ages, abilities and income groups. Some will have savings or existing homes they are willing to sell and reinvest in the community, others will have nothing but their skills or labour to offer. Some young children to care for. Some will be looking to retire, seeking a better final home than those currently on offer, therefore with greater needs and limited in the physical labour they can provide. A good balance of all ages and abilities is necessary to flourish.

It is assumed here that most or all of the physical infrastructure will need to be built from scratch. Others may take on pre-existing structures and choose to primarily retrofit and restore rather than create. Most will probably choose a mixture of both. In all cases work will vary from specialist to 'I can do it if someone shows me how', through 'I know how to do it already' to 'I can afford to pay someone to do it for me'. Someone capable of paying for their home to be built will expect to recoup that outlay by owning the building. An individual self-builder creating a privately owned property will be willing to put in a lot of 'unpaid' work because they will end up with a valuable property. These outcomes will not be a possibility here because of the decision to avoid all forms of private ownership of land and infrastructure, so another form of recompense which acknowledges these inputs whilst retaining IPS ownership and thus the integrity of the communal structure is desirable.

This is where the true strengths of the IPS begin to show. Because the entire property belongs to the IPS alone the following possibilities emerge:

1. The IPS can employ both members and non-members to construct and maintain its property i.e. the community both built and natural.
2. All properties are rented by the IPS to residents and lessees (these could be Bodhi/SCI or other organisations/businesses). This rental is the primary source of income to repay loanstock, and these repayments must be spread appropriately (see table below).
3. Rents charged for living in IPS properties are eligible for Housing Benefit, of particular help to pensioners and single parent families.
4. Money invested as Loanstock can be used to pay for materials and/or labour to build a home, then recovered, optionally with interest, when the loanstock is repaid.
5. Providing an exchange rate is established, construction work (both community and self-build) can be paid in sterling or with alternative currencies and optionally converted later to sterling, easing the cash burden in the early stages.
6. By use of loanstock and conversion of internal currency to loanstock, individuals who have invested work and/or money in the project can recover this as 'real' money over time, or after leaving the community, in addition to the benefits they enjoy whilst being part it.
7. Although everyone is a tenant, by virtue of membership of the *Par Value* IPS, everyone is also the landlord, empowered by group agreement to make all decisions regarding: maintenance provision, rent levels, provision of community facilities, land use and planning etc, etc.
8. Rents can at the communities discretion be paid in any mixture of currencies deemed necessary or desirable. In the early days this would of necessity be primarily sterling to replenish the loanstock fund, but could eventually become almost entirely LETS or time based if desired.
9. Rent may seem a strange weapon of choice as an alternative to centuries of oppression, but when it is remembered that the beneficiary here is your community as a whole and not some external parasite, and particularly when rent can be paid either in time, exchange or money, and thus directly transformed into the necessary labour, products and maintenance to both ensure the day to day functioning and enrich the experience of living in the community, simultaneously providing the regular obligation to contribute to the community (and thus your own wellbeing), its appeal will hopefully become more apparent.

It is thus seen that the IPS setup provides a great deal of flexibility to accommodate many differing scenarios ranging from effectively buying a house to live in, through 'standard' rental to effectively being paid to build your own home.⁽¹⁴⁾ Construction in this particular project is envisioned to be primarily self-build and carried out by members fit enough to do so in conjunction with volunteer labour in exchange for food and instruction. However the IPS can also pay external specialists if necessary, provide all bought-in materials (at bulk buy prices if well planned), pay wages for ongoing community jobs ranging from office work, animal husbandry, fuel wood supply, gardeners and maintenance etc. Through the medium of flexible rental all sorts of 'public' services can be provided, limited only by the willingness and imagination of the residents.

A more ambitious scope could see the provision of care for the elderly or infirm, fully integrated with the community, not shut away, accessing the considerable public funds spent on provision of care homes, schooling, or for the really dedicated, the rehabilitation of damaged refugees from our disintegrating society. Again, each community must choose what it is capable of and willing to embrace. The IPS can also build non-residential properties to lease as shops, venues, workshop space etc. leased to both residents and non-residents to supplement the village income and create a public fund which after loanstock repayments are complete can provide extra services, free meals in the village inn, drastically reduce residential rents - whatever is deemed desirable by the community itself. Empowerment of a kind long forgotten in practise.

So much for the dream, what about the practicalities? Like any large project, a well thought out plan is essential to success. Timescales must be realistic, likewise expenses and potential problems. The basic decisions must relate to desired size, location and natural resources of the community, proportion of work to be carried out by residents directly and whether existing buildings are desirable on site, this latter having an immense and disproportional impact on site price and hence loanstock requirements. A common complaint heard at planning meetings relates to distance from place of work and lack of available time away from work. Although not a ruleset requirement, there is a rather fundamental commitment issue here relating to the type of community being created which would be well to address in advance as it has a marked effect on the location and direction of the whole project. Basically decide whether you want a commuter village or a live-in one. Do you want residents to be mostly working somewhere else to earn the money to pay others to operate the community for them, or do you want people to mostly share work directly in the community, regularly interacting with each other?

Cash flow Forecast

As a financial plan, this must necessarily restrict its concerns solely to financial ones, whilst allowing that personal and political concerns will have a great impact on any schedules. So this cash flow forecast assumes that planning permission is not an issue, that the people involved have already worked through the preliminaries, are ready to purchase the site, know in outline at least what they want to create and are ready to go.

To avoid repayment problems the loanstock issues need to be carefully timed and distributed to enable a comfortable repayment schedule, with none in the early stages, phased repayments over a longer period, and some provision for early repayment of a proportion of the loans if possible. Because the total amount the IPS can borrow as loanstock has to be declared in the initial ruleset, it is worth being generous with your estimate of the moneys required. Work out a figure and then triple it! This does not commit you to borrowing the entire amount, but does avoid you finding yourselves unnecessarily underfunded at a critical time. This limit only applies to loanstock, not commercial or private loans.⁽¹⁵⁾

Interest rates are chosen by subscribers within limits determined by the IPS.⁽¹⁶⁾ Amounts, purpose, terms and duration of each stock issue are all determined by the IPS itself, with the *option* to honour early repayment requests if the community agrees. Loanstock holders may decide to re-invest at maturation time if other stock remains available. It is easy for an IPS to offer interest rates substantially above commercial bank rates, especially in the current climate, but do remember you have to find possibly substantial sums from your own resources which will not then be available for development.

Loanstock can be issued for any fixed term, though usually a multiple of whole years: three, five, ten etc. In addition to choosing from a range of interest rates, subscribers can also choose to have that interest paid annually in sterling, or as further loanstock, thereby receiving it as a lump sum at maturation. Each issue can have its own interest limits, but must be defined for a particular purpose within the project. This could be on a house by house or individual area/project basis. The legal restriction here is that you cannot make repeated issues for the *same* purpose. So some canny planning is called for.

Other considerations here are limiting the total loanstock held by any individual, especially in any one duration. i.e. if someone wants to invest 100K you only allow them to take a spread of years e.g. 30K at 3 years and 30K at 5 years and the rest at 10 years. This would mitigate the tendency for all the short term loans being taken up first leaving only less attractive long term investments on offer. Higher interest rates can also be set for long term loans making them more attractive. Any early repayments should also incur some form of penalty, such as the equivalent cost of acquiring a commercial loan to replace the funds. It may be demand is so high that this is not actually necessary, but early withdrawal should be understood to be a special circumstance, not an option. Too many unplanned withdrawals will threaten the whole community and should be understood to do so from the outset, along with the fact that it is entirely optional on the part of the community as to whether they agree to this in each case. All these terms must be clearly set out on the application forms for the stock certificates.

Shown below is an example Cash flow Forecast for a medium project starting with no existing buildings on around 400 acres of mixed plantation and rough grazing costing £1.2 million. This of course assumes planning permission is achieved after purchase, or the owner is an idealist. After six years they have built around 52 homes and four commercial premises by the village green. This is funded by a total loanstock issue of £3,816,000 spread over 17 years, mostly in the early stages. Figures in red are outgoings. There is a mix of **three, four, five** and **ten** year issues with interest rates varying from 0% to 4%. Loanstock can be issued with a variable rate but this is not recommended for stable planning.

Year	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
No. Homes	1	4	14	32	47	52	56	56	56	56	56	56	56	56	56	56	56	56	56	56
Avg Rent p/m	0	370	370	370	400	440	420	370	370	370	370	370	370	370	370	120	80	90	80	80
Rent (£K)	0	18	62	142	225	274	284	248	248	248	248	248	248	248	248	80	53	60	53	53
Loanstock (£K)	1582	267	144	356	572	480	0	0	200	140	0	0	0	0	75	0	0	0	0	0
Other Loans (£K)	82																			
Income (£K)	1664	297	322	548	804	929	283	285	503	476	385	264	258	456	594	84	99	122	56	65
LS Repaid (£K)	0	0	0	395	452	809	147	144	326	266	290	200	0	140	572	0	0	75	0	0
Interest (£K)	51	56	62	61	70	58	55	49	43	36	26	26	26	23	2	2	2	0	0	0
Expenses (£K)	1,600	125	210	86	107	62	44	38	46	38	54	29	25	22	18	37	36	45	44	33
Balance (£K)	13	116	50	6	174	0	37	54	87	136	15	9	207	271	3	45	61	2	12	32
LS Total (£K)	3,816			No. Of Issues		22		Site (£K)		1,200				Startup Costs (£K)		400				
LoanStock 0%																				
£K	25					32														
£K	15																			
£K				25					200											
£K		27																		
LoanStock 2%																				
£K	370					85														
£K		155								140										
£K			37																	
£K	140													75						
£K		85																		
£K				294																
LoanStock 4%																				
£K	654																			
£K	108																			
£K					572															
£K			144																	
£K						97														
£K	270					266														

Other Considerations

LETS as an internal currency has obvious advantages in removing the internal dynamics of exchange from the corrosive influence of external money supply, often used as a means of forcing people into unnecessary and unrewarding jobs. It enables self-valuing regarding supply and use of personal labour and services, independent of external money supply. LETS can easily be extended to the surrounding region, even nationally through LETSLink, extending exchange and increasing integration with the wider community.

Timebanking is perhaps best suited to community work, the chores necessary to make it all possible. By valuing everyone's time equally and requiring community work to be 'paid' in hours, you avoid differential earnings being seen as an unequal contribution to community chores. By requiring a proportion of rent to be paid in hours, so many a month, a balance between people's schedules and the community's can be achieved, and a guaranteed pool of labour is always available for necessary tasks.

Summary

The IPS structure has a proven track record, provides a great deal of flexibility and the ruleset chosen defines exactly what kind of IPS you want. We have outlined here the main decisions which need to be taken - e.g. will it be par value? Fully mutual? What are the core principles which cannot be changed without completely dissolving the community? Who is responsible for what, and in what time frame? Do we want to include 'sweat equity'? Each community must choose its own priorities. Care taken now to work through these decisions honestly and carefully will save lots of time and trouble in the future.

Some Useful Websites

- <http://bodhi-eco-project.org.uk>
- <http://www.sci-scotland.org.uk>
- <http://lammas.org.uk>
- <http://www.catalystcollective.org>
- <http://www.radicalroutes.org.uk>
- <http://www.upstart.coop>
- <http://www.cooperatives-uk.coop>
- <http://www.cdscotland.co.uk>
- <http://www.businesslink.gov.uk>
- <http://www.fsa.gov.uk>
- <http://www.companieshouse.gov.uk>

If anyone would like a copy of the spreadsheet used for the loanstock table to play with please email steve@envisioneer.net for a copy (PC Excel format). For more information about the Bodhi/SCI Eco-Village project please contact info@bodhi-eco-project.org.uk or visit their website at www.bodhi-eco-project.org.uk.

¹ See http://en.wikipedia.org/wiki/Building_society

² Current charges are: Standard Model Rules: £40; 1-6 changes £120; 7-10 changes £350; more than 11 changes or completely original rules £950. *Source: http://www.fsa.gov.uk/pubs/forms/ms_application_form.doc*

³ There are a range of these and you can self-register, but no-one will point out any legal errors you make, only make you pay steeply to correct them so the expert guidance of the experienced is really valuable here. The most sympathetic we have found so far are Co-operatives UK <http://www.cooperatives-uk.coop>. Their basic charge is currently £700, which includes up to six rule changes from their standard Community IPS ruleset.

⁴ On a larger scale, this was the method used to privatise the High Street building societies during the Thatcher era, when many effectively bribed their memberships to vote for demutualisation with lump sum share bonuses. Once demutualised they transformed into small private banks owned by shareholders adrift in a shark infested sea of international investment. One by one they were swallowed and now none remain independent, all owned by larger banking groups. See http://en.wikipedia.org/wiki/Building_society for more details.

⁵ See http://www.catalystcollective.org/index.php?option=com_content&task=view&id=12&Itemid=84

⁶ For a full description of the various options and consequences of various forms of legal setup see the excellent booklet *How to Setup a Housing Co-operative* produced by Radical Routes and downloadable from their website at: <http://www.radicalroutes.org.uk/publicdownloads/how-to-housing-co-op.pdf>

⁷ Proposers for higher share values of £100 or even £1000 argue it shows greater commitment, provides a startup fund for promotion, and being returnable on leaving, can act as a help for those leaving voluntarily, and a sweetener for those who do not.

⁸ Should mismanagement lead to bankruptcy, then the standard processes would ensue - assets are seized and sold by auction, any personal guarantees or exposure to liability (i.e. your share value) pursued and the proceeds divvied up among the creditors in order of precedence, Government, Bank, everyone else. Loanstock holders will be third in the queue, along with any business creditors. Depending on the size of the debt and the state of development of the village, it is entirely possible the increased development value of the village would adequately repay the first two, AND EVEN EXCEED the remaining loanstock, leaving more than enough for the rest. An immense development value could in fact be created, but members would not be able to access that directly because of the dissolution clause, but would be able to reclaim any loanstock owing. They could always setup a new IPS to inherit any remainder, but meantime the piecemeal open sale of village property forced by bankruptcy would probably render the exercise somewhat redundant.

⁹ This method aims to circumvent the predictable demand for more money, more control arising from unequal shareholdings, whilst allowing greater share capital to be accumulated. See section(s) 28 & 30 in Appendix 3. By UK law the maximum amount an individual may hold in IPS shares is £20,000.

¹⁰ See sections 6 to 12 in Appendix 3, also How to Setup a Housing Co-operative (See note 6) pages 5 & 6.

¹¹ Ibid pages 17, 18, 19.

¹² Precisely because of this similarity to banking, loanstock is hedged around with various restrictions to avoid competing for savings 'unfairly' with banks, who as massive commercial undertakings are far too frail to compete with a group of eco-villagers struggling to put a roof over their heads, and are thus totally deserving of legal protection. The investment window is typically four months. Other restrictions are detailed in appropriate sections of this document.

¹³ All banks have it in their small print that they can just steal (return at their discretion) your money if deemed in their own best interests. These are lawyers handiwork after all! There is always risk, you just have to assess it relative to the potential benefits.

¹⁴ This is not quite the case of course. Selling your home, investing in loanstock, having a new home built for you and living in it, then receiving your loanstock back with interest comes close to having your cake and eating it, but you will always have to pay some form of rent, though this is very unlikely to exceed the cost of the house in your lifetime, and you cannot capitalise on any increased (or suffer decreased!) property value accruing over the years. For a self-builder your investment in labour will be recovered, your materials paid for, but again you will not benefit from accrued inflation and will always have to pay some form of rent. This though, is in return for security of tenure in a home of your own design, in a place of your own choosing, surrounded by a supportive community providing many of the necessities of life in return for that rent, which with the added flexibility of LETS and Time banking, doesn't force you to be dependent on external employment to pay it.

¹⁵ An overall borrowing limit which includes both loanstock and any other form of borrowing can be specified in the ruleset if thought advisable to limit the community over extending itself. It of course quite legal to arrange private loans from members and other individuals without using the loanstock format in which case they would be subject to contract law and not IPS regulations. Lammas has raised in excess of £200,000 in such loans from its members on custom-drafted terms to purchase their land.

¹⁶ These are chosen when applying for the stock. Currently recommended rates are between 0% & 5% but the latter is exceedingly generous when banks are currently offering less than 1% to savers.

Appendix 1: Example Dissolution Clause from Lammas' ruleset

72. The Society 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 Act. 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 among the members, but shall be transferred instead to some other non-profit body or bodies subject to at least the same degree of restriction on the distribution of surpluses and assets as is imposed on this Society by virtue of these rules, as may be decided by the members at the time of or prior to the dissolution.

Appendix 2: Comparison of Other Legal Options

What type of legal structure would best suit an ecovillage development where the group has decided that none of the land and properties will be privately owned or sold for profit? Also required are equality in decision-making, and for all decisions regarding the property to be made by residents.

Professional fees relating to auditing, share issue and valuation can easily run to thousands of pounds annually. Because a village has substantial revenue and capital value, taxation can also take a heavy toll. Here is a brief summary of the other possibilities and the reasons they were rejected.

Charity

- Advantages – funding, no tax to pay, asset lock (i.e. the land is held in perpetuity for good of community)
- Trustees cannot benefit i.e. people making decisions about housing could not live in that housing or on that land
- Expensive external auditing required
- Increasing legislative burden due to extensive fraudulent activity in this sector

Company limited by guarantee

- Not equal (hierarchical) decision making and power structure built in.
- Expensive external auditing required
- Not tax exempt.

Community Interest Company (CIC)

- Individual investment is expensive and complicated. Shares must be revalued when selling.
- It's not easy to withdraw funds, and there is high cost to managing it.
- Not tax exempt.

Limited Liability Partnership

- A private partnership for limited liability without Company auditing requirements. Aimed at private business ventures.
- No asset locks, non-democratic management
- Not tax exempt.

Mutual Home Ownership Society (MHOS)

- A Land Trust owns the land, NON mutual Co-op owns the housing. See CLT.
- Structure designed to share increased planning and inflation value amongst private homeowners
- Capital Gain's Tax may apply

Community Land Trust (CLT)

- Can be a BenCom, CIC, Charity or Company Ltd. Each subject to specific restrictions accordingly.
- Heavily fenced in by legal and planning requirements see: <http://www.communitylandtrust.org.uk/documents/howtoguide.pdf>
- Must have open membership for everyone with an interest in the trust owned property and must demonstrate support from surrounding occupiers and stakeholders (council, EPA's etc.)

Community Benefit Society (BenCom)

- Can be either a Co-op OR a charity
- Greater access to large grant-making bodies (seen as good PR)
- Must provide benefits to non-members in the surrounding community (only real difference from proposal outlined in this document)
- Must have unrestricted membership
- If charity subject to charity restrictions

Co-Operative

Ticked all our boxes:

- Allows social contract through core principles
- Allows collective/communal ownership
- Allows collection of rent
- Individual investment (Loanstock)
- Equality (with par value setup)
- Easy to withdraw investment (subject to Loanstock restrictions)
- Low cost to managing investment (no shares to re-value, minimal auditing)
- Limited liability (limited to share value held e.g. £1)
- Allows members to be paid and sweat equity to be converted to Loanstock
- Residents can claim housing benefit
- Asset lock (i.e. Land held in common in perpetuity)
- Raising funds by bank and ethical investment loans
- Ethical/social nature
- Effective Tax exemption (interest earned on unspent reserves is sole tax liability)
- No external auditing required provided *profits* remain under £10,000 annually
- Low administration costs once set up

Appendix 3: A Model Ruleset: Lammas' Articles of Association

The Lammas project is a proposal for a "new build permaculture development of eco-smallholdings. The dwellings will merge with the natural environment that surrounds them. They will be highly innovative and earthy, using the latest environmental technologies combined with local natural materials. The dwellings will be unique, having been essentially created by the people living in them. The site will become a successful demonstration of low impact building and living. Each household will have access to 6 acres of farm land and additional common woodland. This will enable residents to substantially meet their household needs from the land and to produce surplus goods for the wider economy.

The settlement will, by the nature of its layout and legal structures, encourage a more sustainable approach to living. It will foster strong connections with the local and wider community whilst having its own unique identity. The settlement will produce a wide range of land based products. The settlement's structure will be based upon the conventional village model, whilst allowing for a governing body that will ensure the low impact objectives of the project can be guaranteed in the long term."

Their ruleset is the closest example to Bodhi/SCI's requirements we have found, and would make a sound basis for our own ruleset, but cannot be adopted wholesale. They are using a different approach to tenancy, with the IPS retaining freehold ownership of the settlement's land, but leasing plots to residents using very long-term agricultural leasehold agreements (1000 years for an upfront £35,000 payment). Nor do they have a par value structure, they are embracing a large number of non-resident voting members and there are several other Bodhi/SCI specific options that would need to be specifically included. To view the whole ruleset please visit:

http://www.lammas.org.uk/downloads/Lammas_Rules018.pdf