INVESTING IN THE CLIFTON COMMUNITY ARTS CENTRE LTD

The Clifton Community Arts Centre Ltd (CCAC) is a Community Benefit Society established under the Co-operative and Community Benefit Societies Act 2014 (the Act).

As such CCAC cares about the community of Wellington and benefitting that community through the provision of arts and cultural facilities. As you are reading this note, we hope you feel the same and if so, we would very much like you to join CCAC if you have not already done so. This note provides guidance on how you can join and also how you can invest. There are a number of ways in which you can depending on your personal circumstances and the note sets out to explain how you can maximize the amount of the investment either in your hands and/or CCAC's.

By virtue of the Act CCAC is a society rather than a company although the Act requires us to have the word "Limited" in our title. We do not have shareholders like a limited company. Rather the Act refers to members but people become members of CCAC only by applying and that application has to include an application for at least ten shares.

Applying for membership

Currently we have around 600 members and since the end of July 2016 we have relaunched our share offer after our members approved a motion at our AGM on 22nd July 2016 to explore the option of acquiring a site or sites in the town other than our primary target acquisition of the Clifton cinema and adjoining supermarket bearing in mind that we may eventually be unable to secure those properties. Considering that Wellington has a population of around 25,000 and that our rules do not allow us to have members under the age of 16 this is an achievement. However, in September 2015 we handed over a petition to Telford & Wrekin Council signed by 2,700 supporting retention of the Clifton building as an arts and culture centre.

Hence, we feel that it would not be an unreasonable aspiration to increase our membership up to around 10% of the local demographic. The opportunities and benefits of being part owner of an arts and culture centre through a community benefit society are clear and once a member you can participate in the running of CCAC as much or as little as you like but from the perspective of CCAC a large membership base has many supplementary intangible but nevertheless critical benefits of making business planning and grant applications more robust and assisting and persuasively influencing Telford & Wrekin Council in the implementation of the cultural aspects for the market towns within their Local Plan.

We cannot overemphasise how important it is to the ultimate success of the Society in achieving its aim of providing arts and cultural facilities for the town to maximize the number of members the Society has. In consequence, our membership recruitment strategy is twofold. Primarily, we will concentrate upon new members subscribing the minimum £10 subscription. Clearly we will not turn away members who wish to invest more but this note sets out below alternative means of investment that will work better both from the view of the member and our Society.

We would also point out for the benefit of small investors that we have indicated in share offer documentation that members would be able to avail themselves of discounts. This will include preferential treatment in relation to cinema tickets. We intend to offer seats at a price of £7.50 for adults and £6.00 concessions being children under 16 and adults over 65. Season tickets will be available. For one person there will be a one off fee of £20 with an entitlement to two free shows and a £1.50 discount thereafter, for a couple the fee would be £40 with an entitlement to four free shows and a £1.50 discount and for a family of four the fee would be £50 with four free shows and a £1.50 discount. For a member we would reduce the fee by £10 for each year until their subscription is exhausted. This reflects a key element of our membership policy which is that the one off initial subscription is designed to go towards the funding of premises but once we are up and running and profitable that initial subscription above the minimum amount should be effectively returned to members as soon as possible.

In practical terms, therefore, you are advancing a sum to contribute towards the purchase and you will be rewarded for that contribution by enjoying a level of discount up to the amount of your investment that non-members will not have.

Applying for membership is easy. We have produced a Community Share Offer booklet which you can collect at our market stall on Saturdays or download from our website. An application is within the Offer and we can assist you at the stall or via enquiries@theclifton.org on any queries you have.

Our Rules, policies and the Act variously provide for a minimum subscription of 10 £1 shares. The maximum under the law is £100,000 of share capital.

Members' rights

Shares, whether in a company or a society, are essentially a bundle of rights.

In the context of a company, shares can take many forms but they will always have at least one of the following three main components: -

- A right to dividends or other distributions out of the profits of the company
- A right to vote at company general meetings
- A right to the assets of the company in the event of a winding up or dissolution of the company

As a community benefit society the rights attached to CCAC under its rules are different.

Firstly, there will be no dividends or other distribution of profits to members. Our rules provide that any profits generated will be ploughed back into the society for the furtherance of the society's objects.

Secondly, company shares usually carry one vote for one share. In CCAC a member has only one vote regardless of the number of shares held reflecting the Society's ethos that it is there for the community and each member is equally valued regardless of the number of shares subscribed.

Finally, a member will never get back more than their original subscription. If it should occur that the Society has to be dissolved the maximum that the member will get back would be their original subscription money. Any surplus would be distributed to a not for profit organization sharing the same aims of CCAC. The minimum returned would be zero but that would only occur in the unlikely event that the society's total liabilities net of share capital exceed its assets. Whatever the position members' liability would be confined to their share subscription.

Having said that, we would encourage members to think that a share subscription is not money spent or lost by you. Rather you will be converting an existing asset, i.e. coinage into another asset being part ownership of a community based arts and culture facility that will serve the community for generations to come and thus you will be able to look back and take pride in the fact that this facility would not exist but for your investment which you will still hold and be able to transfer to your beneficiaries in the future.

Hence, your dividend is a social dividend rather than a monetary return on the use of your money.

Increasing the number of your shares

On the basis that one member has one vote regardless of the number of shares held existing members may want to consider one of the following options.

You are perfectly welcome to increase the number of shares that you hold. Under the Society's rules the value of your shareholding will never increase beyond its nominal value. In other words, if you invest £100 you will get back a maximum of £100. If the Society has retained profits in excess of the amount of share capital at the time of its dissolution, such profits will be distributed to not for profit bodies decided by the members.

You may alternatively decide that instead of purchasing further shares personally that you want to purchase by way of a gift shares for someone else such as a close family member who will be the owner of the shares. The only restriction is that the donee must be over 16 years of age. Our application form allows you to specify the name of the person for whom you are buying shares.

A further alternative would be that instead of buying further shares you make a gift aid donation. This will only apply if you are a UK taxpayer. The Society benefits more from a gift aid donation as for every £1 that is donated the Society can claim back from HMRC an additional 25p. As an example we currently have around 600 members and around £32,000 share capital. If each member had subscribed the minimum of £10 only and were able to make a gift aid declaration for the balance we would have share capital of £6,000 and gift aid receipts of £32,500 (£26,000 + £6,250).

We would point out, however, that if you make a gift aid donation you will have of course given up that money and nothing would be returned to you if the Society were to be dissolved. However, pending a property acquisition we intend to keep gift aid donations in lieu of a further share subscription in the same interest bearing ring fenced bank account that houses share investments as we anticipate that we will generate sufficient income from our trading activities to meet our operational expenses in the interim.

Finally, you may wish to increase your investment through using Social Investment Tax Relief (SITR). This is explained in the Appendix below which also includes working examples on the various options for investing in the Society.

Lending money to the Society

It is probable that the Society will have to obtain some external finance to fund the acquisition of trading premises depending upon the level of investment in shares, working capital and grants received by the completion date.

We believe that a qualifying loan instrument under the SITR rules may prove attractive to certain potential investors. This is explained in further detail in the Appendix below but briefly this entails CCAC entering into a loan agreement with a third party individual who obtains the tax benefits under the SITR rules and if you are interested in this we recommend that you study the Appendix in detail.

It would be poor financial management on the part of CCAC to enter into a loan agreement prior to the acquisition of a property and merely have the funds upon deposit. Hence if you wish to enter into a SITR loan agreement with CCAC we will be looking for the drawdown date to coincide with either the completion date for the acquisition of premises or a commitment to acquire the same.

However, as explained in the Appendix there is currently a monetary limit on the amount that CCAC can raise through SITR and we intend to create a certain buffer level so that any member acquiring shares will be able to claim SITR should they wish to. Accordingly, to obtain SITR on a qualifying loan CCAC will adopt a policy of first come first served. Your money will be placed in the same ring fenced account that holds share subscription money until it is spent.

Volunteering

At first sight it may seem odd to include in investment advice a piece about volunteering but this is the greatest investment of all – that of the time of the local community devoted to the Society. It is essential for the success of our project that we engage with the local community and they buy into the concept. Happily, we already have 200 people who have indicated that they are prepared to offer their services but everybody is welcome. Volunteering is crucial to our success and if you wish to volunteer you can do so by notifying us at the market stall on Saturdays, at supporters' events or other events that we attend or by completing the attached form and sending it to us at enquiries@theclifton.org

..\..\Downloads\CCAC 010 Volunteer Application Form D.doc

Sponsorship

Even now, with a membership of around 600 we cover a wide range of age and ethnic groups within the local community and that is supplemented by attendees at out film seasons and other events. Hence this represents a substantial audience wherein a business can advertise their products. As such we welcome local business sponsors and already have named sponsors within our film series brochures which are widely distributed within the local community. We are also open to more innovative means of sponsorship such as donations of prizes, provision of equipment or subsidies towards meeting running expenditure. Our range of services once we acquire trading premises will clearly increase and we will consider naming rights within the building and other forms of advertising such as sponsoring cinema seats. If you feel that your business will benefit from sponsorship of CCAC in any form please get in contact with us at enquiries@theclifton.org

Thank you for reading this.

APPENDIX 1

SOCIAL INVESTMENT TAX RELIEF

Frequently Asked Questions

- *What is Social Investment Tax Relief?*

Governments see social enterprises as playing an increasing role in enhancing growth and meeting social and community aspirations. This government has shown a long-standing commitment to support that growth. The Prime Minister, when he launched the consultation on the social investment tax relief at the G8 conference on 6 June 2013, asked how we could create the best possible environment for social investments in Britain. The tax system is a key part of how the governments create the best environment. Social investment tax relief (SITR) is the government's tax relief for social investment. Social investment is a government initiative to encourage individuals to support social enterprises and helps them access new sources of finance.

- *What is a Social Enterprise?*

This is specifically defined within the legislation and covers a number of bodies. CCAC qualifies as a social enterprise by virtue of being a charity.

- *What are the Tax Reliefs?*

There are two types of relief. For income you can claim a tax reduction of 30% against your income tax liability. For example, if you invest £5,000 and your tax bill is £10,000 you can reduce your tax by £1,500 (£5,000 x 30%). This is regardless of whether you are a basic rate or higher rate taxpayer.

Alternatively, you can defer a Capital Gains Tax charge if you reinvest your profits into a social enterprise.

- *What qualifies for Social Investment Tax Relief?*

You can either buy new shares in a social enterprise (i.e. you cannot purchase existing shares) or enter into a new loan with one. The new loan is called a "qualifying debt investment".

- *If Social Investment Tax Relief is so great why can't I get it on my existing shares?*

Quite simply, the shares were issued from 2013 and SITR was not introduced until the 2014 Finance Act. The relief mirrors in many ways the Enterprise Investment Scheme and the Seed Enterprise Investment Scheme and carries many similar features. However, there is no point in introducing new legislation if it is merely a clone of existing legislation. SITR is wider in scope and the prohibitions that debarred CCAC from the other schemes do not exist within the SITR legislation.

- *How does the legislation define and restrict Social Investment Tax Relief?*

The legislation is complex and for the avoidance of doubt you are recommended to obtain your own professional advice rather than relying upon this guidance solely. As a social enterprise we are required to fulfil certain conditions within the legislation. There can be no absolute guarantee that any social enterprise will pass all the conditions within the legislation, not least because some are factual conditions that are only in place at the time of issue. Nevertheless, HMRC offer a voluntary advance clearance procedure for social enterprises contemplating a share issue or a qualifying debt instrument to get early assurance that the relief will be available provided the terms of the application are adhered to. CCAC have made such an application both in relation to shares and a qualifying debt instrument and have received clearance. In addition, two investors have kindly offered to make investments in CCAC using SITR – one for shares and one for a loan and HMRC have agreed that CCAC can issue certificates to those investors so that they can claim tax relief. We have therefore established not only in theory but also in practice that a new investor can claim SITR.

- *What are the risks to investing?*

While the tax relief is attractive the government have made it clear that the tax incentive – it is an incentive rather than a tax break – is there to encourage investors to invest into an enterprise that carries an element of inherent risk.

In relation to shares, CCAC have made it clear in the Community Share Offer document that there are risks attached to a share subscription. The same risks will attach to shares that attract SITR. In addition, there is the possibility that HMRC may seek to withdraw the relief. Again, the rules are quite complex but in particular there may be a withdrawal if you derive "value" from CCAC or CCAC is acquired by a company which you control and that is extremely unlikely to be the case. Value is widely defined in the legislation and will include goods and services provided to members at undervalue e.g. free or reduced cinema tickets. However, value of less than £1,000 is treated as insignificant and you should not be treated as being precluded from any benefits that CCAC will be able to offer to non SITR members.

The same risks will attach to a qualifying debt investment. In particular, there will be the possibility that on maturity or beforehand CCAC will have insufficient funds to honour the debt. In this respect CCAC will be no different from any other organization and you are directed to our business plan which has been approved by two separate management accountants. Having said that, we have mentioned above that members gave us approval at our last AGM to explore the possibility of acquiring an alternative site or sites. As such it may be that our acquisition programme will be different from that envisaged in our currently published business plan. We have modelled in alternative scenarios where we acquire smaller premises that will part cover our stated aims as we might have to develop on a piecemeal basis.

Whatever the position we anticipate that CCAC will remain solvent throughout the term of the loan and that with grant monies on site redevelopment will have substantial assets as collateral. At Appendix 2 we set out the performance of various businesses that are either community arts centres or small cinemas with other facilities attached to demonstrate that such businesses are profitable. Eventually, the success of our venture will rest upon our ability to attract the local community to the services we provide but unless the attitude of the Wellington community and its environs is significantly different from the locations we have identified we would anticipate that we should also run our business profitably.

You should note, however, that the legislation provides that a qualifying debt investment can have no rights in the event of a winding up or dissolution that are superior to the issued share capital and will rank pari passu with them in such an event. The loan agreement will reflect this.

- *What happens when I dispose of my shares?*

Here the legislation interacts to a degree with CCAC's rules. In respect of the shares, CCAC's rules define two concepts being "withdrawable" and "transferrable". "Withdrawable" is the right to withdraw shares and unless as a member you retain the minimum shareholding of £10 you will also have to resign as a member of the Society. In addition, the rules provide that the directors at their sole discretion may suspend the withdrawal of shares and this is the current position as the Society is building up its share capital base. Therefore, it may well be the case that in the foreseeable future you may not be able to withdraw your shares. In any case you should note that to qualify for SITR you must hold the new shares for three years from the date of subscription. Otherwise the relief will be withdrawn.

After that you can withdraw your shares provided the suspension has been lifted. The amount you will receive will be based upon the gross amount of your investment or if lower the open market value of your share. Our rules do not allow you to recover any more than the amount of your original investment. Therefore, if you subscribed for say £5,000 in shares and the market value is in excess of £1 per share you will receive £5,000. Potentially Capital Gains Tax will apply on the disposal and it will be assessable according to the rules prevailing at the time. However, from your perspective you will have received £5,000 back after an initial net investment after tax relief of £3,500. This is not to say that we feel that we are offering you a "chance to make a quick buck". Social investment is a long term commitment for the benefit of the community and we hope that you will remain a member for many years to come. This should not form part of any tax mitigation or planning strategy for you.

Shares can only be transferred in two instances being either on the death or bankruptcy of a member in which case the Society will act so far as the law provides in accordance with the wishes of the executor or trustee in bankruptcy. In the case of death within three years of subscription the recovery of the relief outlined above is waived.

We have also been asked why anyone would invest in shares when there is no right to a dividend and a member would only get one vote regardless of the amount they have invested and therefore the investor would not be able to influence the direction of the society to a greater extent than a £10 investor.

We appreciate and understand these concerns but investors may be persuaded to invest in shares under SITR for one of the following two reasons.

The first one is essentially altruistic. The effect of SITR can be viewed from a number of perspectives. One is that it gives a taxpayer the choice as to how his tax payment is utilized. An investment of £5,000 under SITR will include £1,500 which but for SITR would be part of the individual's tax liability. If an investor is more concerned with enhancing the arts and culture facilities in the town than realizing a return on his investment, SITR effectively allows him to increase his investment by nearly 43% at no personal cost.

The second reason is more pragmatic. A member has to retain shares for three years to qualify for the relief. After that the shares can be withdrawn without the investor losing his SITR relief. Potentially, there would be more flexibility with shares than a five year fixed loan. This would of course depend upon the suspension of shares being lifted and that will depend upon the financial security of the Society. In the working examples below we have indicated that the Internal Rate of Return (IRR) at Examples 3 & 5 are 10.19% and 20.49% respectively. If an investor could withdraw shares immediately after the three year period the IRR becomes 12.6% and 29.5% respectively which would mean that although the form is different shares bought under SITR have the potential to match the characteristics of a zero coupon bond. This is all part of the risk element within SITR investments.

Long term, we expect to lift the suspension of withdrawals. If we are trading successfully and have retained profits we will not oppose any member's request to reduce their shareholding to the minimum investment of £10.

- *What will be the terms and conditions attached to the loan?*

As we have indicated above we have not finalized this until such time that we are at the stage of completing on a property acquisition. However, we have submitted a draft loan agreement to HMRC as part of our clearance application which they have deemed acceptable. To use the terminology used in the finance sector it will be a "vanilla" loan, i.e. the terms will be as simple and straightforward as possible. There will be no discount on issue or premium on redemption. If the loan is for £5,000 that will be the amount lent and the amount repaid at maturity with no capital repayments in the interim. At present, we are considering that the loan will be for a term of five years but that may be subject to review. If a lender requires a longer period, we are likely to be sympathetic towards this. However, you will not be able to obtain tax relief if the term of the loan is less than three years.

In terms of the amount that we will want to borrow, this will depend upon the amount of share capital raised, our other reserves and our fixed and working capital requirements. In addition, the legislation imposes a cap on the amount a social enterprise can raise under SITR which is €344,827. Accordingly, we will be managing our portfolio of SITR investments closely to ensure that this limit is not breached and any investors will be admitted on a first come first served basis subject to any money laundering regulation checks we are obliged to take.

- *What will be the interest terms?*

Again we will finalise the details once we open the loan programme. We are appending some working examples of how we perceive SITR working in respect of CCAC, investors and the impact upon the Exchequer. For these purposes alone, we have taken a supposed rate of 2.25% fixed but that should not be taken as our final figure and is for illustration purposes only. We will, however, be looking at a fixed rate rather than a floating one as that gives us more certainty in our financial forecasting. By way of further information, we would advise you that our rules place some limits on our borrowing powers and we cannot borrow at a rate that is more than the higher of 5% or 2% above the Bank of England Base Rate. Hence we are assuming a rate of 2.25% on the basis that the Bank of England Base Rate is currently 0.25%. All expenses of managing the loan including its initial administration will be met in house at no cost so that we can pass the maximum benefit to the investors. In addition, the legislation would disqualify from relief any loan instrument where the rate of interest is above a commercial rate. We are sure that this is the case even in a financial sector that has lenders who may offer more generous rates to charities. As an example the Arts Council will be prepared to lend at between 4-7% while Big Society Capital which is a Lottery controlled fund which does not lend to community and charitable causes direct but does so through intermediaries looks at an Internal Rate of Return of between 4-6%. This would mean that we would struggle in the absence of SITR to obtain loan finance below the threshold in our rules of 5% and may have to hold an EGM to seek a rule revision. An SITR loan therefore works for both CCAC and investors. CCAC will be able to obtain finance at a lower rate of interest than it otherwise would. An investor will obtain through the tax incentive a considerably higher IRR than lenders in the financial sector are expecting.

The interest will be paid yearly in arrear. It will be annual interest and we expect that we will be required to deduct tax at source and pay that amount over to HMRC. We will of course supply you with a tax certificate for the interest if you require one.

- *Can I terminate the loan before maturity?*

We do not anticipate inserting an early termination clause into the loan agreement as potentially it may affect your entitlement to relief if you do not lend the money for three years. We will insert a clause within the loan agreement to make it clear that in the event of a default you will not be entitled to repayment of the principal within that three year period as we have been advised that if this was not inserted there would be a potential for early repayment and relief would be denied. At the same time, we will ensure that there will be no default on interest payments for those three years by depositing amounts in a ring fenced bank account to be specifically used to pay the interest.

If you wish to enter into a longer loan agreement, say for ten years, and wished to have the option to terminate early after say five years it would be likely that we would be prepared to accommodate your wishes and draw up an agreement accordingly.

- *How will CCAC fund repayment upon maturity?*

There are a number of possibilities. Our rules provide that no dividend will be paid to members and any profits can only be applied to carry to a general reserve for the continuation and benefit of the Society. Hence any surplus can be applied towards redemption. In addition, further share subscription monies could be so used on redemption. Alternatively, we could access external capital markets. By the redemption date we will have a substantial redeveloped asset which will have funded by grant monies which could provide adequate security for a third party lender. Finally, there would be every prospect of offering further qualifying debt investments if SITR is still available.

Beyond that, we have done some further financial modelling to assess our overall position at the end of five years of trading. This will of course contain a number of assumptions that may not materialize but we have researched the matter widely and looked at the financial position of comparable concerns to assess our scope for profitability. We are including at Appendix 2 some examples of such concerns. Everything will ultimately depend upon the community take up of our facilities but if the Wellington community responds in the same fashion as the other communities within the examples we would anticipate that we will be well in surplus at the end of the five years with retained profits. More importantly, in terms of cash flow, as some of our deductions against profit such as depreciation on fixed assets will be of a non cash basis we are projecting that we have the capability of repaying some £150,000 loan finance out of cash generated from our trading.

- *Can I convert my loan into shares?*

Once again, we want to keep the conditions as simple and straightforward as possible and we will not be inserting a clause to give you the option to convert the loan into shares either during its term or at maturity. If, however, at maturity you wish as a separate matter to then make an application at your choosing to apply for shares we will, unless we believe it to not be in the interests of the Society to have you as a member, accept your application. We will not accept or enter into an earlier separate side letter giving you the right to convert your loan into shares.

- *Can my company benefit from SITR?*

No. SITR is only available to individuals.

- *Can I enter into a loan with you now?*

The problem we have is that we cannot borrow at 2.25% and just leave the money sitting in a bank account generating little or no interest. We need to match the drawdown of the loans against capital or revenue expenditure being incurred. We will announce shortly when we will start to accept loans.

As you will be able to obtain tax relief either for the year of investment or the previous year we would be likely to be sympathetic to a drawdown date towards the end of the tax year if we are anticipating meaningful expenditure early in the subsequent tax year.

- *Can I subscribe for shares and also have a loan?*

There is nothing in the legislation stopping you from doing this. In fact one of our "test" investors has done this and we have HMRC approval.

- *How do I claim from HMRC?*

The starting point is the Share Application Form. In it we will ask you to certify that you are a UK taxpayer and that you wish to claim SITR. The legislation then provides that CCAC as a social enterprise will submit to HMRC a Compliance Statement. This is when the verification process starts in earnest. Provided that HMRC are satisfied that the conditions are fulfilled they will then authorize CCAC to issue to the investor a Compliance Certificate which the investor can then submit to HMRC in support of their claim for a tax reduction. We will do this as soon as we receive from HMRC the Compliance Certificates. We aim to be as helpful as we can be on your own personal administration to get the tax relief and we will send you an accompanying letter advising you of the procedures you need to take yourself to get the relief.

- *I have never made a Self Assessment Return. Will I have to to claim the relief?*

It is HMRC who have responsibility for the care and management of the Tax Acts. All the legislation provides is that the investor can claim a tax reduction. The mechanisms by which this is effected lies with HMRC and their published guidance specifies that the claim for a tax reduction can be given through the preparation of a Self Assessment Tax Return or if you are a PAYE taxpayer you can submit the compliance certificate to HMRC and they will amend your tax code accordingly. However, this would not work if you wished to claim for the previous tax year which is an option that the legislation provides for.

CCAC recognizes that many members may not prepare Self Assessment Tax Returns and would not want to. With this in mind members may find the following guidance helpful.

First of all, if you are not a taxpayer at all, SITR is not for you and you are advised not to tick the box on the application form that you are a UK taxpayer.

If you are a PAYE taxpayer and do not submit a Self Assessment Return and your share application is for a comparatively small amount, e.g. £50, the tax reduction that you can claim is £15. Habitually, because of the operation of the Tax Tables that work out your net pay under the PAYE system a PAYE taxpayer will normally have a small underpayment at the year end that HMRC do not collect under their internal tolerance systems. In such cases the effort in working out your repayment may not be commensurate with the amount you will receive back.

If you are making a larger investment it is probably worthwhile using SITR even if it means you will then have to make a Self Assessment return or ask for a tax code adjustment. While we do not propose to insert an internal cap on the amount of your investment we would be grateful to save on our own administrative time if a minimum SITR investment of £250 was made.

If you make a Self Assessment return anyway we recommend that you invest through SITR.

We conclude by showing some working examples that illustrate how SITR works in practice.

Working Examples

These examples have been created to assist you in choosing how to invest in CCAC and show the impact upon yourself, CCAC and the Exchequer from the choice you make. Every effort has been made to ensure that the legal position is correct but CCAC accept no responsibility for any inaccuracy and you may well wish to receive your own professional advice before proceeding.

We would also point out that the rate of interest used of 2.25% per annum is illustrative and does not commit CCAC to adopting that rate on any loan it will enter into.

Example 1

Kath is a local retailer in Wellington and recognizes the benefit to the local community in having an arts and culture centre. She is willing to invest £350 in the project and contacts CCAC for advice on the best way to proceed. CCAC point out that as she is self employed and has to fill in a Self Assessment Tax Return SITR may be of interest to her. Effectively Kath can increase her investment to £500 new shares while preserving her net £350 outlay by virtue of being able to claim a 30% reduction in her tax bill. It is December 2016 and Kath is happy with this as she is just on the point of submitting her 2015/16 Self Assessment Return and although the investment is made in the 2016/17 tax year the SITR rules allow the taxpayer to claim a reduction in her tax bill in the previous year if the taxpayer so chooses.

Movement of Cash without SITR

Kath lays out £350, CCAC receives £350

Movement of Cash with SITR

Kath pays CCAC £500 and then pays £150 less to HMRC – net outlay £350. CCAC receives £500 instead of £350. The Exchequer receives £150 less in tax.

Example 2

Lynn has been paying tax at basic rate for many years and has never submitted a tax return. She is Wellington born and bred and has fond memories of the old Clifton Cinema and would very much like it to be restored. Failing that she is keen for Wellington to have an arts and culture centre even if it has to be at an alternative location. She already is a member and has a small shareholding. She would like to put more money into the project and can afford around £350. Lynn contacts the Clifton who advise her on SITR but she is uncomfortable about having to contact HMRC. She has never done so and is worried what would happen if she made a mistake. Lynn accepts that if CCAC was dissolved she would only get back her original investment and any surplus would go to a similar local organization. In fact, she would probably donate her returned monies to the same. After discussion, Lynn decides that gift aiding £350 would be beneficial for both her as she will not have to make a tax return or otherwise contact HMRC herself while CCAC can claim money back from HMRC

Movement of Cash without Gift Aid

Lynn lays out £350, CCAC receives £350

Movement of Cash with Gift Aid

Lynn lays out £350 and CCAC receives £437.50. HMRC forward a cheque of £87.50 in support of its Gift Aid claim.

Example 3

Malcolm has been doing well for himself and is paying tax at 45%. He is 55 and looking to retire at the age of 60. He has maximized his pension contributions but still has surplus funds and is looking at a tax effective way of getting a good return on his money. He hears about SITR and decides to invest £5,000 in a five year loan with CCAC at 2.25% per annum. He pays this in December 2016 and claims SITR against his 2015/16 tax liability

Movement of Cash without SITR

CCAC receives nothing. Malcom pays £1,500 more in tax.

Movement of Cash with SITR

CCAC receives £5,000. Malcolm pays CCAC £5,000 but gets an immediate tax reduction of £1,500 so his net outlay is £3,500. Over five years at 3% interest Malcolm receives £662.50. Therefore, for an initial outlay of £3,500 Malcolm receives a return of £5,662.50 on his money. Disregarding any tax he has to pay on the interest he has an IRR of 10.19%.

Example 4

Some years ago, Nigel bought a house for his son when he was at university and then rented it out for several years but has now decided to sell it and he will realise a capital gain of £5,000 from the sale and his rate of tax on the gain would be 20%. He understands that he can defer his gain if he reinvests the gain into shares or qualifying debt investments that qualify for SITR. Nigel is confident that CCAC could make better use of his money than HMRC and invests in new shares. Nigel realizes that the gain will be brought back into charge when he disposes of the shares. He hopes that will be never as he very much wants CCAC to succeed.

Movement of Cash without SITR

Nigel pays £1,000 in Capital Gains Tax

Movement of Cash with SITR

The benefit of that £1,000 passes from the Exchequer to CCAC.

Example 5

Bethan has reasonable savings, certainly enough to get by on, but has substantial wealth tied up in her home and has been advised that she needs to do some Inheritance Tax planning. In particular she is made aware of the lifetime gift exemption of £3,000 and duly makes such a gift to her son, Keith. Keith is grateful for this windfall but has no immediate need to draw on it. However, he does not want it to be tied up for ever. He hears from Malcolm about SITR and thinks that a loan on the same terms that Malcolm got would work for him. He therefore adds £2,000 of his own money in the full knowledge that his net personal outlay will be £500 with the tax reduction and enters into a £5,000 loan with CCAC.

Movement of Cash without the gift and SITR

On the basis that Inheritance Tax is at 40%, Keith would eventually receive £1,800 (£3,000 - £1,200) which added to his own money of £500 would give him £2,300 to play with.

Movement of Cash with the gift and SITR.

CCAC receive £5,000. As with Malcolm, Keith will receive £5,662.50. Compared to what he might have received if nothing had been done, Keith is £3,362.50 better off which could be considered as giving him an IRR of 20.49%.

Example 6

Gwen has recently retired and is drawing on her pension. On retirement she received a decent lump sum and is looking to invest it. The returns on other investments are not particularly attractive. She hears about SITR and feels that a modest investment compared to the amount of her lump sum of £5,000 is worth the risk especially as the legislation provides that even if CCAC was dissolved and had no funds whatsoever she would never lose her tax relief so that the maximum amount at risk is £3,500. She is reassured by CCAC's business plan and income projections and feels that an IRR of 10.19% as with Malcolm is better than she would get elsewhere in the financial markets.

APPENDIX 2

As indicated at Appendix 1 we have researched widely to help investors decide on whether they wish to invest in CCAC. We have looked at a variety of concerns both locally and nationwide and extracted from publicly available information details on their activities and financial performance. We hope that, from this information, potential investors will appreciate that there is clear potential for CCAC to be equally successful. There can be no guarantee that this will occur as each business is bespoke and is subject to the take up of the services by the local community but we have to work on the basis that the appetite in Wellington and the surrounding areas will not diverge significantly from the localities served by these comparators so that we have the potential to enjoy both longevity and profitability.

Community Centres

Festival Drayton

Many of you will already be familiar with Festival Drayton. It is truly a jewel in the crown for the community of Market Drayton.

It has been community owned since 1984. It possesses a theatre, cinema, meeting rooms, leisure and learning spaces, exhibition spaces and a coffee shop – all the type of facilities that we are aspiring to provide.

For a town of 12,000 Festival Drayton has an annual footfall of 140,000. Wellington and its surrounding area is considerably larger and the spin off benefits for all the business community in the town are there for all to see. Festival Drayton only have four full time employees. Other than that they have 110 local volunteers who run the centre. It is through the time, dedication and commitment of those many volunteers that Festival Drayton has become what it is today. Volunteering opportunities include such things as catering and service, box office and receptionists, front of house and ushering, lighting and sound technicians etc. It provides a life enhancing experience for the many volunteers and this is something that we are similarly striving to provide for Wellington.

In 2014, Festival Drayton won the Queen's Award for Voluntary Service and also has a Trip Advisor certificate of Excellence Award. You can learn more about Festival Drayton at their website http://www.festivaldraytoncentre.com/index.php

In terms of structure there are two companies being a holding company by the name of Festival Drayton Centre which is a charitable company limited by guarantee and a trading subsidiary. At 30th November

2015 the Festival Drayton Centre accounts showed on its balance sheet reserves from its income and expenditure account of £1.3m.

Its subsidiary is called Festival Drayton Centre Trading Ltd. That subsidiary carries out all the trading activities on behalf of its parent. All profits realized by the subsidiary are passed up to the parent by way of gift aid. This is a tax effective way of structuring a charitable community arts centre providing a variety of services and facilities as the taxation rules with regard to charities and the activities therein do pose some challenges and these are removed through the upward movement of income through gift aid donations.

NB. This is the structure beneath that we will ultimately be seeking to put in place. The parent structure is slightly different as Festival Drayton Centre is a company limited by guarantee while we are a Community Benefit Society but the rationale for dropping down activities to a trading subsidiary are identical. Unfortunately, we cannot do this at the moment as it may jeopardise investors entitlement to SITR on account of the conditions applying to that relief but as soon as we have no SITR investors we will consider implementing a reorganization provided there are no changes in the legislation. In the interim, it is possible that we may have some Corporation Tax liability notwithstanding our charitable status but we would hope to manage this effectively through accelerated Capital Allowance reliefs.

Pocklington Arts Centre

Pocklington is a small market town with a population according to the 2011 census of 8,337. It is situated in the East Riding of Yorkshire, just 10 miles east of the Roman and Viking city of York.

Pocklington Arts Centre was set up in February 2000 following an intensive period of fundraising to support the funds provided by Pocklington Town Council to purchase and refurbish the former Ritz cinema and, since then thousands of people have enjoyed the facilities and services it provides. The Arts Centre offers a mixed programme of Film, Music, Drama, Dance, Lectures, Workshops and Exhibitions. It also provides conference facilities and hire opportunities for business and is also used regularly by local charities and community groups. The objective of Pocklington Arts Centre is to break-even, as a not-for-profit organisation, and indeed operates independently of Pocklington Town Council.

Similarly, our aim is to operate completely independently of Telford and Wrekin Council. We are seeking a productive and collaborative working relationship with them particularly as we consider that the provision of arts and cultural facilities within the town is 100% compatible with the commitments made by the Council in their Local Plan. We do not want to achieve this because of Telford and Wrekin Council. We wish to self fund the facilities and besides the possibility of some short term bridging finance we will not be looking for long term funding from them. Nor would we see it reflecting well on either ourselves or Telford and Wrekin if we were to get there in spite of them. We want to get there ***with*** them.

The local community at Pocklington is heavily involved in the management and operation of the venue, principally through the Friends of Pocklington Arts Centre (a registered charity) and there is a stated aim to involve as many people as possible in the area as participants. Thus, the Friends of Pocklington Arts Centre of whom there are 400 members provide staffing for box office, auditorium duties and leaflet distribution.

The Plough Arts Centre Torrington

Torrington is a market town in North Devon with a population of around 12,500. It has had an arts centre since 1975 and has been in its current form since 2002. Its structure is similar to that of Festival Drayton with a parent being a charitable company limited by guarantee with a trading subsidiary below.

The last published accounts of the parent are for the year ending 31st March 2015 and although they are not required to do so they have chosen to submit to Companies House a full set of accounts rather than abbreviated accounts.

The company's objectives are shown to be to promote, maintain, encourage, improve and provide public education in the arts and to provide facilities in the interest of the social welfare of the community of Great Torrington and its surrounding areas. The charitable trustees report in the accounts itemizes the various activities and in particular show 31,819 people attending live events which included 15,094 attendees at 322 film screenings while in total 70,000 people entered the arts centre for all purposes.

Total income for 2015 was £514k and the profit for the year was £32.8k while accumulated profits were £127k. The company employed just under 8 full time equivalents paid employees and had tangible fixed assets with a historic cost of £205k.

Independent Cinemas

The Old Market Hall Shrewsbury

Many of you will already know of and have visited the Old Market Hall in Shrewsbury. It was redeveloped with the help of English Heritage in 2004 and has an intimate 81 seat cinema having around 19 showings a week. It attracted 66,000 film attendees last year with up to four showings a day and also has a stylish café/bar to relax and socialize in which is universally lauded in Trip Advisor. We aim to provide comparable services and more besides.

An ancillary benefit has been that the presence of the building in the Square in Shrewsbury has served to substantially eliminate the incidence of anti-social behavior in the area.

The Regal Cinema, Melton Mowbray

Some time ago we had the pleasure of meeting Tony and Amanda Mundin. They, now with their sons, have been running independent small cinemas for many years starting with the Ritz at Belper in 2005, the Regal at Melton Mowbray in 2012 and more recently the Savoy at Heaton Moor, Stockport. Only the Savoy was historically a cinema. The other two are converted retail units.

The fact that the family have sought to acquire additional outlets is in itself prima facie evidence of the fundamental viability of small niche cinemas provided that they are well run. Of the three cinemas, the one that is closest in size to the cinema element of our project is the Regal at Melton Mowbray and the link aside will give the reader an impression of the type of facility that we are aiming to provide http://regalcinemamelton.com/seeinside.htm .

Melton Mowbray is 19 miles north east of Leicester and 20 miles south east of Nottingham and with a population of some 27,000 could be considered comparable to Wellington but without the catchment area. On average the Regal will have 17 film showings every week with a mixture of repeat and occasional one off showings. They also provide screenings of live events such as the Royal Opera House, Bolshoi Ballet, National Opera, Royal Shakespeare Company etc. at a rate of at least one a week.

Each cinema's trade is carried out through a separate limited company. The Regal Cinema Ltd was incorporated on 29th August 2012. The last published accounts for the Regal Cinema for the year ending 31st March 2015 show an increase in retained profits after tax from £8,448 at the start of the year to £61,032 at the year end representing a post tax profit for the year of £52,584.

The Rex Cinema at Berkhamstead & The Odyssey Cinema, St Albans

Both of these cinemas are the brainchild of an entrepreneur by the name of James Hannaway. The Rex is the older of the two cinemas having reopened in 2004. The video on the attached link gives the background to its story and illustrates the many hurdles to be overcome before achieving stated goals and also the merits of perseverance http://therexberkhamsted.com/?page_id=156

However, this note concentrates more on the Odyssey. The Odyssey was a former cinema that had been left in a derelict state for 19 years. In December 2014 it reopened its doors. Between 1995 and 2009 the then owners indicated that they wished to convert the building into flats but in 2009 James Hannaway announced that he had purchased the building subject to raising sufficient funds.

Now the Odyssey now that it is reopened is a 500 seat cinema which is considerably larger than the venture we are seeking to establish but the important point for this note is how cash was raised.

Following the announcement £1m was raised by local people in three months up to March 2010. A further £2m was required in relation to redevelopment work and this is how it was achieved.

A brochure was issued in September 2010 showing various funding options and these can be summarized as follows.

1. An Advanced Booking List (ABL)– 850 people could pay £285 for one year's benefits, 150 could pay £2,000 for five years.
2. You could sponsor a chair for £1,000. That was included in the 5 year ABL.
3. They would continue to receive donations.
4. They had already issued Ordinary Loan Stock as part of the January to March 2010 funding campaign. A five year option had already been fully subscribed. A 10 year option at 5% gross was still available. Interest was compounded annually and paid on redemption.
5. Preference Shares were issued on the same terms as above but subsequently added to by putting in a 7.5 year option.
6. Finally, there were Investor Ordinary non voting shares. There is no guarantee of dividends as that would depend upon results but investors were able to make use of the Enterprise Investment Scheme.

The Accounts for the company running the Odyssey Cinema, which is known as the Alpha Cinema St Albans Ltd, to 31st December 2015 show a level of retained profits £163052 from opening deficit of £102402. Therefore, there has been a profit after tax £285454 from the first full year's trading.

Returning to Companies House details supplied on 12th December 2015 the company also shows the shareholding position as follows: -

- 2134 Ordinary Shares issued at a price of £375.819828 per share (voting) - 5 investors
- 243 5 year preference shares of £500 at 4% = £121,500 – 26 investors
- 192 10 year preference shares of £500 at 5% = £96,000 – 18 investors
- 54 7.5 year preference shares of £1,000 at 4.75% = £54,000 – 16 investors
- 350670 Investor Ordinary Shares of £1 = £350,670 (non voting) – 95 investors

This is a truly inspiring story and shows what can be done by energizing and incentivizing the local community to buy into a project for the community's benefit particularly if the financial benefits are there. While we accept that St Albans will be a more affluent area we would nevertheless hope that this example in particular would influence the thinking of potential investors.

Firstly, the initial amount we will be seeking will not be as large but secondly the Internal Rate of Return that we will be offering is considerably in excess of that offered here. While it is true that the Investor Ordinary Shares will provide comparable tax incentives under EIS to SITR such investors had the uncertainty of knowing when they would receive a dividend if at all. On the contrary a loan with CCAC will give an income flow beyond the tax incentive.

Secondly it should be noted that the investment environment in 2010 was not unfavourable at least to the current position. The Internal Rate of Return especially with the compounding is in the region of 5 – 5.5% for the various options above which does not compare well with the 10% + that we are offering.

On that basis we would hope that you would find the opportunity to invest in CCAC attractive if not irresistible.

APPENDIX 3

Glossary of Terms

Readers may find it helpful to refer to the table below for some of the terms used in this guidance. Unless the context would suggest otherwise the following is a more detailed explanation of the terms used.

The Act	The Co-operative & Community Benefit Societies Act 2014
AGM/EGM	Annual or Extraordinary General Meeting of CCAC
Capital Allowances	A tax relief for wear and tear on fixed assets such as plant and machinery. It differs from the depreciation figure in the accounts which is ignored. Often, enhanced rates are given to encourage investment.
CCAC	The Clifton Community Arts Centre Ltd
Community Benefit Society	A legal term for an unincorporated association employed by the Co-operative & Community Benefit Societies Act 2014. The Act does not go on in any length to expand upon the ordinary dictionary definition of those words.
Community Share Offer	A share offer booklet issued by CCAC upon the relaunch of shares. These are available locally, at our market stall and events or accessible through our website
Company Limited by Guarantee	A particular type of company. Unlike limited companies it has no share capital but a number of members who put in a certain amount by way of guarantee and that is the limit of their liability
Compliance Certificate	The certificate issued by CCAC to an investor to claim SITR after CCAC have HMRC approval to do so
Compliance Statement	The statement submitted by CCAC to HMRC to get authorization to issue a Compliance Certificate
Gift Aid	A government led tax incentive to encourage and enhance giving to charity
HMRC	Her Majesty's Revenue & Customs
Internal Rate of Return (IRR)	A measuring tool employed by business to consider the viability of a certain purchase or investment. For example, if a business wished to buy a machine which has a life of ten years they will work out the income flows net of expenses. The surplus is then used to calculate the IRR. As such it is similar

	but not identical to working out an annual interest rate level.
Local Plan	A document produced by local authorities to provide communities with certainty on planning policies and how land is used
Member	A member of CCAC
Preference Shares	A type of share where that class of shareholder will have a right to a dividend in preference to other classes of share. They are usually non voting and carry a fixed rate dividend. Often they are redeemable after a period of time which means that in reality they are not far removed from loans
Qualifying Debt Investments	Loans under SITR
Rules	The rules of CCAC. The Act requires us to have rules. They can be accessed through our website
SITR	Social Investment Tax Relief
Social Enterprise	A bespoke term in the SITR legislation for bodies who can offer SITR to investors
Society	CCAC
Transferable	The ability for an investor to transfer their shares in CCAC to another person
Website	www.theclifton.org
Withdrawable	The ability to withdraw from your investment in CCAC
Zero Coupon Bond	A means of lending sometimes used. No interest is paid but taking a £10,000 loan as an example it will be issued at a discount (say £9,500) and repaid at par or alternatively issued at par and repaid at a premium (say £10,500)