

Bamford Community Society

Interest policy

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| Approved on | 11 th May, 2017 |
| Approved by | Board of Directors |
| To be reviewed no later than | May 2020 |

General policy statement

The Society

The Bamford Community Society Ltd is a registered society under the Co-operatives and Community Benefit Society Act 2014 and is owned by its members, the majority of whom are residents of the village of Bamford. The Society operates from the Anglers Rest site within Bamford village, in the Derbyshire Peak District and delivers various services for the benefit of residents of Bamford, the wider Hope Valley and visitors to the area. The BCS is a socially responsible business committed to commercial success whilst upholding the highest standards with regards to business operations. This policy forms part of those standards of good practice.

Purpose

As set out in BCS Rules (as set out in the extract in Appendix A), the Society may pay interest to holders of shares. The Rules set out the maximum level of interest payable.

This policy sets out the Society's approach to interest payments, reflecting the Society rules and advice from the Financial Conduct Authority (FCA) and the Community Shares Unit.

Financial Conduct Authority

The FCA places two requirements on societies:

1. the maximum rate of interest paid on shares is declared in advance of the period for which it is intended to be paid, whether in its rules or elsewhere and
2. the declared maximum rate of interest is the lowest rate sufficient to obtain the necessary funds from members who are committed to furthering the society's objects.

Interest on share capital should never be treated as a profit distribution. Instead, share interest should be treated as a discretionary operating expense, payable only if the society can afford to do so, having taken into account the other liabilities of the society, and the need for reinvestment in the society. The FCA makes it clear that a society should not pay an interest rate above the declared maximum rate, even if the society has made above expected profits, or has paid below the maximum rate in previous years.

Setting the interest rate

Rule 8.5.1 states that any payment of interest must be from trading profits and is at the discretion of the Management Committee having regard to the long-term interest of the Society, the need to maintain prudent reserves and the Society's commitment to community benefit.

Rule 8.5.2 states that the rate of interest to be paid in any year is to be approved by resolution of the Members at the Annual Members' Meeting.

In addition, the terms of our loan state that we shall not make any redemption or payments to shareholders without the Bank's prior consent.

The Board will prepare a resolution on the rate of interest, consult with the bank and present it to the AGM.

Payment of interest

Rule 8.5.3 states that the Management Committee may decide that interest shall not be paid in relation to holdings of shares below a minimal level.

This minimal level shall equate to a lower limit interest payment of £5, such that no interest will be paid below this threshold.

For example:

- If the interest rate is set at 2%, then the interest payable on £250 is £5, so all shareholdings of £250 or greater would attract interest.
- If the interest rate is set at 1%, then only shareholdings of £500 or greater would attract interest.

Interest, when payable, will be paid pro-rata on shares purchased within the previous year, rounded to the nearest quarter, subject to the minimum set out above.

Shareholders can opt to receive interest by one of the following methods:

1. Being paid interest in vouchers, in multiples of £5
2. Donating the interest to the Society
3. Being paid interest in cash, via BACS

Shareholders are requested to complete a form setting out their preferred method. Their selection will remain in place unless or until they change their preference.

If the Society is unable to contact a member, or do not get a response, the default option will be for the interest to be paid in vouchers.

Interest on share capital is normally paid gross of personal income tax. It is the responsibility of members to inform HMRC of any interest on share capital paid to them or credited to their share account. Even though the member does not receive the interest, they may still be liable for income tax on that payment.

Appendix A – extract from the Bamford Community Society Rules

8.5 The Society may (but is under no obligation to) pay interest to holders of shares, as compensation for the use of such funds, subject to the following:

8.5.1 any payment of interest must be from trading profits and is at the discretion of the Management Committee having regard to the long-term interest of the Society, the need to maintain prudent reserves and the Society's commitment to community benefit;

8.5.2 the rate of interest to be paid in any year is to be approved by resolution of the Members at the Annual Members' Meeting, and shall not exceed 5% or 2% above the base rate of the Bank of England;

8.5.3 the Management Committee may decide that interest shall not be paid in relation to holdings of shares below a minimal level.