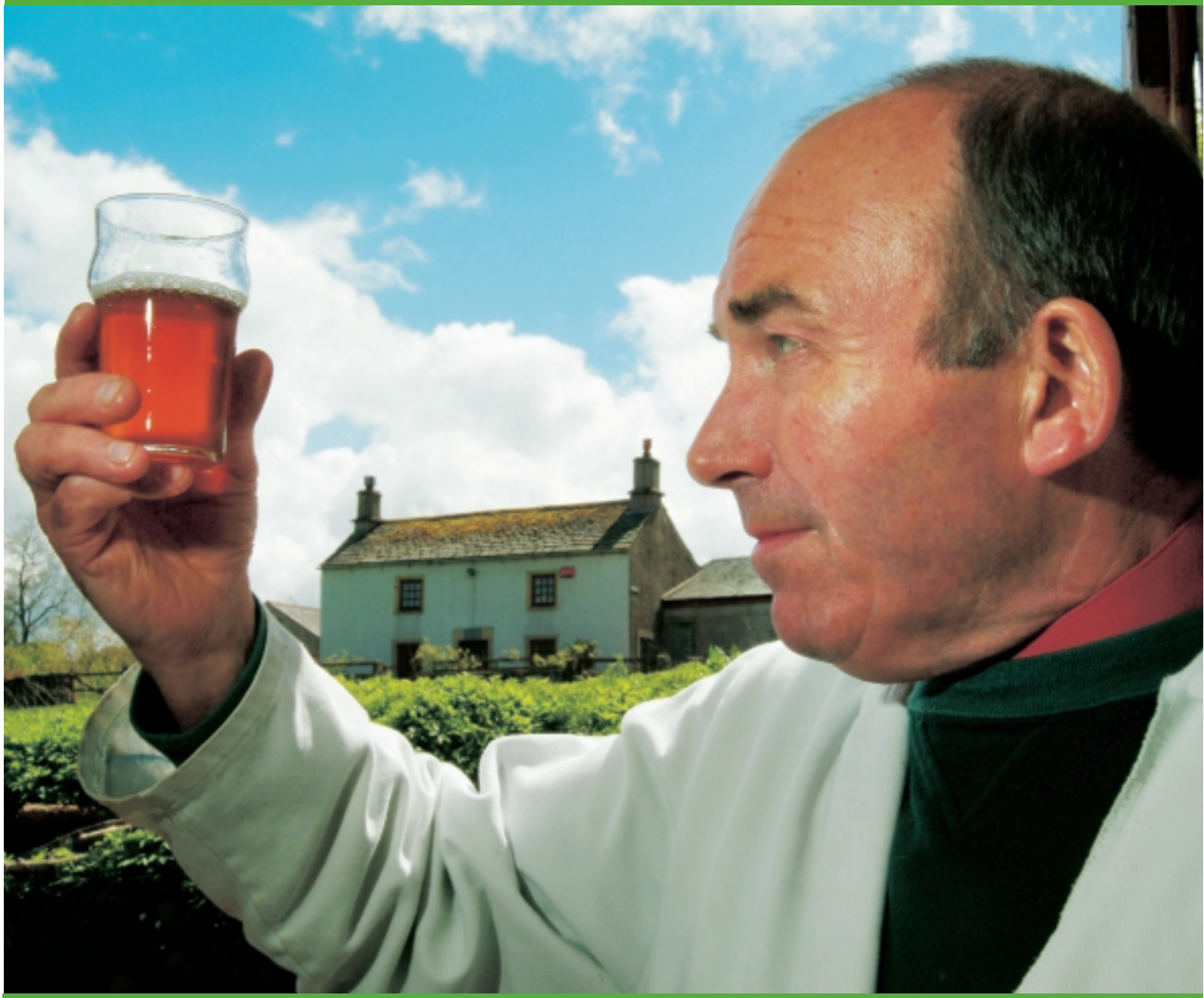
Delivering Employee and Community Buyouts



A GUIDE TO THE SUCCESSION PROCESS

A technical guide for development workers and business advisers

Delivering Employee and Community Buyouts

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A technical guide for development workers and business advisers produced by

Co-operative and Mutual Solutions

Economic Partnerships

Wrigleys Solicitors

for the *Growing Rural Businesses through Collaborative Solutions* project

Delivering Employee and Community Buyouts

First published in May 2003 by Co-operatives[UK] Ltd, Holyoake House, Hanover Street, Manchester, M60 0AS

Front cover picture: Hesket Newmarket Brewery, a community buyout in Cumbria. Photograph: www.paulcarter-photographer.co.uk

Back cover picture: Belgrano Services, an employee buyout in North Wales. Photograph supplied by Wales Co-operative Centre, courtesy of Co-operative News

Editing by David Parker, Helen Seymour and Nicky Connell

Design and production by Alpha Communication, www.alpha.coop

Printed in Great Britain

Acknowledgement

This guide has been produced as part of the *Growing Rural Businesses through Collaborative Solutions* project, funded by the Small Business Service's Development Fund for Rural Renewal under the Phoenix Fund. For further information please email: rural@cooperatives-uk.coop or visit www.cooperatives-uk.coop

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Foreword

THE PROJECT

This guide has been produced as part of an initiative supported by the Development Fund for Rural Renewal under the Phoenix Fund, which is managed by the Small Business Service. The Phoenix Fund is designed to encourage entrepreneurship in disadvantaged areas. The Development Fund for Rural Renewal aims to promote innovative ways of supporting enterprises in business communities adversely affected by Foot and Mouth Disease.

The initiative – the *Growing Rural Businesses through Collaborative Solutions* Project – is about people working together and finding joint ways forward for their common business needs. It is about collaboration and collaborative structures – co-operative solutions of various kinds.

It has two thrusts or objectives:

- The first is about getting businesses to work together to meet their needs together – whether this be joint marketing, joint branding, joint purchasing or joint service provision
- The second is about forging alliances, either between employees or within the community, to buy out a successful business when, for any reason, the owner wishes to step down. The business can then continue, jobs are safeguarded and services can continue to be provided. This is called business succession.

The partners working on the project are:

- **Co-operatives[UK]**, the lead body taking overall responsibility for the project management
- **Co-active**, the partner delivering the project in Devon
- **Economic Partnerships**, the partner delivering the project in Northumberland
- **Enterprising Communities – Voluntary Action Cumbria**, the partner delivering the project in Cumbria, with support from **Co-operative and Mutual Solutions**
- **The Plunkett Foundation**, which is providing the research resources and some of the toolkits for the project.

THE AUTHORS

Co-operative and Mutual Solutions (CMS) is an employee-owned business providing specialist consultancy to co-operatives and social enterprises. CMS' three consultant directors have over 30 years' combined experience of developing co-operatives and social enterprises (worker co-operatives, employee-owned businesses, community businesses, social firms, credit unions and other community finance initiatives).

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Economic Partnerships Ltd, based in Northumberland, is a team of specialist social enterprise development advisers with a long experience of working in the field. They have been involved in government policy development, have planned and managed multi-million pound development programmes, helped establish some of the most successful social enterprises around.

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Wrigleys Solicitors is a niche firm of solicitors comprising some 80 staff offering advice specifically for both private and charity/social economy clients.

Working from its offices in Leeds and Sheffield, Wrigleys has many years' experience of working with owner-managers on the sale of their businesses to employees, on the establishment of an employee share scheme, and with employees on the acquisition of the businesses in which they work.

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ACKNOWLEGEMENTS

Particular thanks go to Gareth Nash, Dave Hollings, Geof Cox and Susan Priestley, and the staff of Co-active, Voluntary Action Cumbria and the Plunkett Foundation.

Geof Cox, together with Toby Johnson and the Open University Co-ops Research Unit, is the author of Turnarounds - a development workers' guide to democratic conversions and buyouts.

Introduction

PRIORITY FOR RURAL COMMUNITIES

In its Small Business Service Policy Statement *Think Small First* the Government identified three priority areas relating to its goal of making the UK the best place to start and grow a business by 2005.

The three priority areas are the prevailing culture and environment, the regulatory framework for business and support for businesses at each stage of the life cycle. This project relates to the third priority area – support for businesses at each stage of the life cycle and geared to every stage of their development.

While considerable resources are targeted at business start-ups and growing businesses, ensuring a business survives has not been afforded the same interest, and yet this is an issue faced by a significant proportion of private business owners. It is also an issue which is particularly pertinent to rural communities, businesses and public authorities covering rural areas. Services in rural communities may be subject to closure because the owner wants to move on or retire, or a death has occurred. Public authorities may be faced with taking steps to close rural services for budgetary reasons and the private sector may not feel there is the necessary return on investment.

Transfer of ownership

The Enterprise Directorate General of the European Commission estimates that

- Approximately one third of European businesses will transfer ownership in the coming decade (ranging from 25% to 40% depending on Member State)
- Retirement is still the main reason for business transfers but transfers due to personal reasons are on the increase
- A growing number of business transfers will take place outside the family. Business succession is taking on a critical nature as fewer family members wish to take on the family business.

Succession is becoming ever more important as a result of the general ageing of the population and pension, lifestyle and other issues such as corporate restructuring. Demographic changes are contributing both to ageing profiles of owners and a greater number of mature entrepreneurs.

The sources of succession situations are many and varied and are examined in detail in this guide. The case studies (starting on page 40) examine successful (and unsuccessful) examples of:

- Community buyout
- Employee buyout
- Multi-stakeholder buyout resulting from an externalisation
- Divestment from a larger business
- Retirement of an owner.

It takes time

A successful succession can take anything from three to eighteen months to complete.

In retirement situations it may be possible and beneficial for the owner to hand over to the employees and act as a mentor to the new owners/managers in a consultancy role. It may also be possible to persuade the owner to take the purchase price over time thereby reducing the capital needed to be raised at the start.

In crisis situations (such as closure, receivership and liquidation), although speed of action is often critical (to ensure the assets are not dispersed or a competitor does not step in) the process almost always takes longer than envisaged.

Externalisations from a public authority to a co-operative or community business can also take a long time to complete. This may be because a range of stakeholders (staff, trade unions, community members and council members) needs to be involved and because the processes of public authorities need to be adhered to.

Community buyouts may take time for slightly different reasons. Community members may need to be persuaded that a community buyout has the potential to succeed and visits to similar examples would be useful. Community members would be undertaking this work in their spare time (as volunteers) with help from professionals. A feasibility study may be required (funds will need to be raised), and then the money to purchase the business will need to be raised. This last activity may take time particularly if the business was only marginally profitable, or if a capital asset requires financing or a share issue is to be made.

In general it is never too early to start planning. It is only in this way that employees, community members and other potential stakeholders can prepare for their new role as owners of a business. This Guide examines the process from first meeting to completing the deal and all the stages in between.

Routes to Succession

DIFFERENT SITUATIONS

There are many different situations that can lead to a transfer of ownership. These include the following:

Community buyouts

Rural communities often depend heavily on micro businesses for their services, eg garage, pub, shop and/or post office. In addition there will be other small service businesses critical to the vibrant life of rural communities. The closure of these businesses can threaten the viability of village communities and can be the stimulus for the community to come together to purchase and run the service.

Receiverships and liquidations

Although receivers and liquidators are not necessarily attuned to the idea of an employee buyout, the logic of managers/employees purchasing the business (or a profitable part of the business) may be explored as an option and has been successfully completed on occasion. Crisis situations of this kind are problematic to manage and the outcome is often difficult to predict.

Benevolent successions

Some of the largest and most successful democratic businesses have been established through the original owner giving the business to the employees (usually out of religious or political conviction), or selling it to them under very favourable conditions.

Sympathetic disposals

Where the original owners want to retire, change career or move away and there is no obvious heir but there is a long-serving loyal workforce, there may be the opportunity to organise an employee buyout – along broadly commercial lines (the original owners will probably want to fully realise their investment) but nevertheless under much more favourable conditions than a sale on the open market would provide.

Divestment and contracting-out

Where large companies want to sell off a subsidiary or aspect of their business, or contract a service out rather than employ people directly on it, it may be possible for some or all of the original workforce to buy the business or undertake the contract themselves. Although from the large company's point of view this may be a cost-cutting or rationalisation exercise, it is possible for good, profitable democratic businesses to be created in these situations. In some large corporate acquisitions a bundle of businesses are transferred and the purchaser may not be interested in them all. The employees in those businesses may be well placed to purchase the business.

Externalisations

A number of large democratic businesses have been established in response to political pressure to privatise municipal services. The emphasis within current Government policy on integration at both a strategic and a local level in such areas as regeneration, health and education suggests new ways of achieving policy objectives in partnership with co-operatives and social enterprises. Within the new policy environment, public authorities are being encouraged to move away from providing services *to* people towards enabling services to be provided *by* or *with* communities.

Lateral development

Existing democratic businesses rarely adopt acquisition strategies, but opportunities do exist for them to initiate or assist purchases of competitor, parallel, supplier or customer firms.

Rescues

These are the best known but unfortunately also the most difficult of successions as they imply the saving of a significant part of a business which is in some difficulty. Nevertheless, there are examples of outstanding successful rescues.

Phoenixes

These are not strictly speaking successions, but new businesses established by the former employees of a failed business, no doubt utilising their old skills and perhaps some of the product ideas, contacts and equipment (which might have been purchased at very low prices from the liquidator) of the old business. Phoenixes are often a fall-back option for a failed rescue attempt, usually involving a small group of the most committed employees carefully planning the new venture over several months. Probably for these reasons they are often successful.

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FIRST APPROACHES AND RESPONSES

Succession situations are highly diverse and require appropriate responses. Depending on the situation the first approach may come from the employees, the managers, the existing owners, a trade union officer, the public authority's representatives and/or members of the community. This group will be referred to as the 'initiators'

The difficulty facing an adviser lies in coming to a realistic assessment of the viability of the succession without dampening the enthusiasm of the initiators. At a later stage, the adviser may have to advise the initiators not to continue, or to set out a number of significant obstacles that will have to be overcome. However at first the adviser's goal is to inspire confidence in the principle of succession as a practical option, and also confidence in his or her own competence and professionalism.

Have an appropriate example to hand

The adviser may have been able on first contact, when the first meeting was arranged, to establish at least the trade and size (the most crucial measures being the turnover, the number of employees and the fixed asset value) of the target business. The example of a similar succession will do more than anything to establish confidence in the idea as a really viable option. Subjects for case studies can be gathered from this guide, relevant publications and websites contained in the bibliography section, and of course from the adviser's own contacts and experience.

Most effective of all is to arrange a visit to a similar buyout or to invite someone who has been involved in a similar succession. However, the time and work involved in this may not be worthwhile unless the adviser is fairly sure the succession will go ahead, and it may be better to postpone this technique to a slightly later stage.

Clearly describe the aims

The key to success in succession situations is flexibility – open-mindedly recommending the right legal/financial structure for the particular circumstances and for those involved, rather than 'selling' them a particular model. Further, the adviser must bear in mind that existing owners may not be especially interested in democracy and will have to be sold the succession option mainly on the grounds of, say, its tax efficiency, or the prospect of the business continuing and services and jobs being saved. However, the adviser must also be clear about where his or her 'bottom line' is.

The adviser may feel that there are non-negotiables, for instance, the opportunity for all existing and future employees to participate in the ownership and management of the business, in the context of the legal/financial structure of transition arrangements which ultimately ensure real democracy. This could mean, for instance, in a final attempt to secure agreement on some kind of buyout, giving the existing management a controlling interest, as long as they are required to sell their shares back to the employees on leaving, and that the employees as a whole have sufficient shares to block any change in this requirement. Such an arrangement is fraught with danger, and will be discussed further in this guide, but might set the business on the road to majority employee ownership and control, albeit after an indefinite transitional period.

Set out how the succession will proceed

As will be seen, there is no single model for successions: the very essence of the 'technical' skill involved in successions is the judgement, based on the nature of the existing business and the aims of the existing owners/employees, community members and/or public authority, of the best route to achieve a successful succession. Nevertheless, there are certain steps which will be common to all successions, and certain kinds of support will be available to all. The following, at least, will be essential:

- Discussion and clarification of the aims and expectations of the initiators
- Fact-finding visit to the business premises, including talks, if possible, with key employees
- Review of relevant documents, such as the existing Memorandum and Articles of Association and the most recent audit (in some circumstances these may have to be obtained from Companies House or by 'back-door' means)
- Establishing a steering group which might be composed of managers, employees, community members and other relevant stakeholders (public authority representative and/or trade union official) to enable the detailed work to progress
- Preparation of a short report on the feasibility and proposed means of succession, with a proposed timetable and initial cost estimate
- A person to co-ordinate the succession from start to finish. A 'relationship management' approach is often appropriate in succession situations where ongoing support is required but with access to appropriate specialisms.

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- Presentations to the employees or community members – assuming they are not all in the initial group. This is essential to ensure that all potential stakeholders are involved in decisions and that future communication channels (which are likely to form an integral part of the new business) are opened at the outset
- Review and recommendation of appropriate sources of finance
- Training as is found to be necessary both during and after the succession.

Certain kinds of succession, especially rescue situations, will require much more work than this, such as thorough financial investigation. The step-by-step procedures laid out in this guide for succession will enable the adviser to extend the above list even at the stage of the initial exploratory meeting, according to emerging details of the situation of the target business and the aims of the initiators.

Start an assessment

The adviser should also use the first meeting to start an honest assessment of the viability of the succession (in addition to establishing the credibility in principle of the succession option). The key aspects of this assessment will be:

- **Commercial viability** - Is the business (or a possible core business within it) strong enough to survive? If not, is a phoenix possible?
- **Commitment** - Are these people serious? What do they really want? Do they have the time and the energy to see it through?
- **Ease of legal transfer** - Does the business exhibit characteristics that ease succession, or are there technical obstacles that might require higher fees for specialist legal or other advice? Is a longer timescale needed than is realistically available?

Commercial viability and commitment are by far the most important aspects of the assessment and in these areas most advisers will already be highly skilled. It is unlikely that any legal transfer factor will prove an insurmountable barrier to success.

ASSESSING COMMERCIAL VIABILITY

It is important to have a thorough understanding of the general techniques of assessing commercial viability – break-even analysis, market research, costing and financial forecasting. Such topics are adequately covered in general terms in a number of other easily available sources of information.

The question that will be addressed here, therefore, is:

What are the problems in assessing commercial viability that are specific to democratic employee and community successions and buyouts?

In beginning the assessment, the adviser must bear in mind a surprising number of special considerations in addition to the usual criteria for business viability. These are as follows:

The reasons for the succession

What are the reasons for the succession proposal and are they genuine? Remember that there may be several reasons. The existing owners of the business might genuinely want to involve and reward employees, but an additional factor in the equation might be a desire to spread the financial risks in an approaching period of uncertainty. This is certainly one of the advantages of democratic ownership – but everyone should be aware of any such increased risks.

In the case of community successions, there may be a variety of reasons why a trade sale may not be a viable option for the owner. There may be an opportunity however for a community succession if the business can sustain a member(s) of staff and allow for reinvestment to improve the business on an ongoing basis.

If a succession is being proposed in response to some difficulty, it is also necessary to ask whether a succession will actually solve the problem.

Past performance

At the first meeting a general description should be sought of the nature and past performance of the business. In most cases, especially in buyouts or where there is any question of financial or trading difficulties, this will be the subject of very detailed enquiry throughout the succession process. The initiators should be warned at the earliest possible stage that if substantial losses have been made any borrowing will be difficult (although not impossible).

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Debts won't disappear

A sole trader thought he could avoid his business debts by incorporating the business as a co-operative. The adviser informed him that the creditors would either be transferred – in which case the new co-operative would have to pay them – or they would not be transferred – in which case he would still have to pay them. They would certainly not just disappear! Interestingly enough, this was not the only reason for the proposed succession and it went ahead anyway. The new co-operative started with a clean slate except for an agreed sum for the equipment transferred to it, to be paid over several months and this did help the old owner, now a member of the co-operative, to settle the old debts.

Past organisational structure

At the first meeting the adviser should try to understand how the business has been organised. It is particularly important to establish whether the business has been organisationally self-sufficient in the past. For instance, if it is part of a larger company or group of companies, it might be dependent on other units in a number of ways. Some work may have been carried out for connected businesses elsewhere. Management tasks, such as accounting, may have been done at 'head office'. Such arrangements could leave structural or skills weaknesses in a newly independent business. Also, poor business practices, such as relaxed delivery and payment arrangements, are common between connected companies and these should not be carried over into the new democratic business.

Paying the buyout price

Even if the business has been healthy, it may not have the cash flow in future to meet repayments of borrowing necessary to meet any buyout price. Such problems are normally most acute if a buyout involves land and buildings or a lot of expensive equipment and relatively few employees. This will be examined further in due course, as will the costs involved in actually organising the buyout. Once again, however, it is as well to get some idea of the possible value of assets, especially land and buildings and of past cash flow, at the earliest opportunity.

Alternative costs

A key aspect of any buyout price should be kept in mind even at this early stage: what would be the cost of any alternative to a buyout? This in turn will have two aspects: the cost to the sellers and the cost to the buyers.

If the sellers have no alternative buyers but have determined to sell, they will have in mind the cost to them of winding up the business, which may well be higher (if, for instance, there are considerable redundancy entitlements) than any price they could obtain at auction for the equipment, etc. In an extreme case they may well be willing not only to sell the business for a nominal sum, but also to assist the purchase either financially or practically (say, by placing contracts with it).

Conventional guides to buying a business always contain the advice that buyers should arrive at their own valuation and stick to it, always being ready to walk away and look for another opportunity rather than entertain any deal that might stretch them. Obviously, having a number of alternatives does give considerable strength in negotiations. Unfortunately, employees and community members are rarely in this privileged position. They will usually have the alternative of simply looking for work or to secure the service elsewhere (although this may not be a very realistic prospect in some areas or in some trades). In addition, they will often have the alternative of starting a similar business from scratch. This might be enormously difficult and expensive in all kinds of ways, but if not, the costs involved in such an alternative can provide a ceiling for the buyout price. In rescue situations, there may also be the alternative of waiting for the business to collapse then buying it, or selected assets, from the receiver.

Continuity

It may be either an advantage or a disadvantage to a buyout that production and sales are interrupted and the decision on how important continuous trading may be will therefore depend on considering the particular circumstances of the business in question.

In most cases continuity will be important to commercial viability, because of the need to retain suppliers, customers, employees and so on and to continue to generate income to meet overheads. On the other hand, the extra time for training and business planning provided by a break in trading might prove more valuable, particularly if it also serves to secure redundancy payments.

Also to be considered are financial facilities, such as a bank overdraft. It is crucial to establish as early as possible not only whether similar facilities will be available to the new democratic business, but also on what terms. Suppliers might want to take the opportunity to reduce credit terms, for instance, or bankers

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(particularly in the case of a divestment where facilities were guaranteed by the parent company) may ask for additional security. Any break in trading will make it easier for banks and others to change their terms.

Special factors

There may be other factors affecting the commercial viability of a succession or buyout that simply do not affect new businesses. The initiators and their advisers will have to satisfy themselves completely that after a thorough and open-minded investigation any such factors have been uncovered. An example here would be a company pension scheme, which might involve considerable contingent liabilities and indeed other hidden traps for any succession proposal. This is examined in more detail on page 13.

Benefits

The buyout of UBH International meant that 95 founder members were able to save their jobs and 25 new ones were created. The business is 100% employee owned, with the employees electing three members of the Board. There are mechanisms set up to ensure genuine involvement and sharing of information. As owners of the business the employees are entitled to a share of the profits (see case study page 49).

Initial questions on commercial viability

Why has the succession proposal been made?

Are there any alternatives to succession?

Have family routes been explored?

Has a trade sale been considered and rejected?

Is the business profitable? Did it make profits last year and the previous year?

What is the turnover? Is it going up or down?

Is the business independent, or is it connected (other than by normal trading relations) to any other business?

Are any major aspects of the business carried out elsewhere or by agents (eg accounts, payroll, debt collection, sales)?

Is the business dependent on a single customer? If so, on whom? (Such a customer may become the key player in the succession.)

What are the main assets (eg land and buildings, vehicles, plant and equipment) and what are their approximate values?

Are the assets leased or owned?

Is there a bank overdraft?

How many employees are there? Are they full or part-time? How long have they worked there?

Will they want to secure their redundancy payments – whether or not they support a succession?

How much might employees contribute financially?

Will key employees be sympathetic to a succession?

Is it important that there is no break in trading?

Are there any business difficulties on the horizon (eg need for new investment)?

Who are the main competitors? What are their plans?

What are the trends in the market?

Is there a company pension scheme?

Can copies be obtained of:

- the last audit?
- the most recent management accounts?
- recent financial forecasts?
- any recent asset valuations?

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ASSESSING COMMITMENT

Assessing the commitment of both the existing owners and the potential democratic owners is the most difficult aspect of assessment – and the most difficult to advise on. It is also an aspect of business assessment, at least with regard to the new democratic owners, in which public and private sector business support organisations may have little experience to draw on. There are a number of co-operative development bodies with substantial experience in this field, as well as a number of private sector consultants.

In terms of assessing commitment there are very real tensions:

- The need to establish firm commitment at an early stage by asking employees to commit themselves to making a financial investment in the new business.
- Not overwhelming the employees with too many commitments at an early stage, and thereby postponing any question of investment to later in the buyout process.

Clearly, there is no right or wrong way of handling this. The best advice is that the adviser should trust his or her own judgement and 'feel' for the situation and people involved. The following brief notes on the factors that may need to be taken into account will assist the adviser:

Are key employees sympathetic?

Any succession or buyout will be much simpler if at least some members of the existing management team are sympathetic. Apart from anything else, they will have detailed knowledge of past plans and performance and access to financial and other information, and will be able to take on much of the business planning side of a buyout.

If the existing management team is not sympathetic it is first necessary to establish the reasons for this. Some reservations are inevitable and justified: business does sometimes require difficult and unpopular decision-making, and managers may well need to be protected against summary dismissal by an angry meeting. Such concerns can be addressed in a number of ways, either in the constitution of the new democratic business or in the managers' service contracts. The whole question of remuneration can also be addressed in a range of ways (some of which will be examined further below). The point at this stage is to take on board such concerns, offer reassurance and initiate discussion of possible solutions.

If the managers still prove unsympathetic, it may be possible to bring in a management team from outside, or a new team from within. These strategies are extremely difficult, and in general not as attractive to funders/financiers as management continuity (unless of course the business is in difficulties, in which case some new management input would be welcomed). They can be pursued in a number of ways:

- Recruit a new team, or at least a team leader, from another similar business
- Recruit a new team from the existing workforce
- Enter into an arrangement with the management team of a similar democratic business.

There may also be key employees outside the management team: for instance people with vital market contacts, technical skills (detailed knowledge of computer systems is often limited to one or two relatively junior people) or leadership qualities.

It is critical at an early stage to understand the attitude of any trade unions to the succession situation, particularly if there is more than one involved, and the nature of their relationship. At workplace level, branch officers and shop stewards may be involved in the buyout team or steering group but it will be important to ensure that regional officers are kept aware of progress and problems. Trade unions in general and some local officers in particular are often much more aware of the options available to employees in succession situations and they can be a powerful ally.

Is there sufficient community support?

A threat to a business providing important services to a community may well encourage local people to come together to find a solution. A community succession may not be the first thought on their minds but if contact can be made by an adviser and enthusiasm engendered at an early stage, the option can be given due consideration.

Community meetings are usually relatively easy to arrange in many rural communities. It is an accepted way of sharing information, pooling ideas and getting things done. A community meeting called to discuss the threat/closure could be advertised by word of mouth and/or leaflets. The first meeting needs to establish whether the idea of a community succession is thought to be viable (in principle) and whether there is sufficient interest (at this stage) to take it forward.

Residents will have knowledge and experience of the business in question and skills to bring to the process. A list of people present (including their addresses and contact details) should be made so that the momentum

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can be carried forward. A small steering/working group should be elected from those present if the succession idea is to be progressed.

Are there any troops?

It has been said that there are two questions in any assessment of a buyout: *Is there a business here?* and *Are there any troops?* This reduces the questions of commercial viability and commitment to their bare bones, and makes clear that along with experienced management, an essential requirement of a genuinely democratic buyout is the support of a substantial number of the whole workforce.

In large buyouts, the commitment of the workforce can only really be established through a presentation, questions and votes at mass meetings, and their final willingness to make a financial commitment. It is often a good idea to establish a savings scheme at an early stage for employees or community members to start saving small amounts week by week towards their investment in the business. The money will be returnable should the buyout not succeed, although a small part can be put aside into a sinking fund to meet buyout expenses, such as advisers' fees. This sinking fund will be non-returnable, but if the buyout succeeds employees can be issued with free shares or loan stock in its place. Most banks and building societies will be happy to assist with such a savings scheme.

Often, during large buyouts, the adviser will have to rely on the 'feel' among the members of the succession or buyout team for how workforce commitment is developing.

The situation with the workforce is in any case quite different from that of the old owners, managers or trade unionists. Usually the workforce will either give the adviser their support or they won't – either way there won't be any of the problems of 'hidden agendas' that may be encountered among so-called 'leaders'. This is not to say that there won't be mixed motives. It is quite likely, for instance, that the workforce's main concern will be to preserve their jobs, then to maintain pay and conditions, and only thirdly to run the business themselves. This is common sense rather than a lack of commitment: food on the table is more important than votes in the boardroom. But often the adviser can rely on the power of the idea of democracy to help win the workforce over. A financial investment is important here too: most people will insist on a real say if they have put money in.

In the case of a community buyout the 'troops' will comprise

- current employees (if any)
- potential employees
- people who are on the steering group and who may join the Board
- people who are willing to undertake work but who are not interested in a formal Board role
- People interested in using the service.

For the community buyout to be viable, getting the right mix of all these constituencies is important.

In working with communities, it is necessary to be aware of the role of people who are very active in the community and who undertake a wide variety of activity in a voluntary capacity. While these people's leadership is potentially vital, it is also important to harness the enthusiasm, skills and experiences of a wider group.

It is vital to gain and retain people's support through a variety of means. These might include: community meetings at which the steering group provides feedback and gets people's ideas for further action, and social events at which people can discuss the proposal informally. The feasibility study may also be an opportunity for professionals to work alongside residents thereby ensuring that community ownership is embedded.

Drive, determination and communication

The buyout of Shilbottle Village Shop came about through the drive and determination of the members and being good communicators, making others feel involved and included so a momentum was kept up. They now have a functioning and refurbished shop. Members enjoy a sense of ownership and say in what happens and the shop has enabled many people to make new contacts and nurture a sense of community (see case study, page 47).

The need for secrecy

One aspect of succession situations that presents particular difficulties for the assessment of commitment is that there is sometimes a need for secrecy. This can arise in a number of ways. For example the owner of a business considering selling to the employees, may want to explore the idea in some detail before he or she puts it to them. Another situation is where a trade union is negotiating a redundancy package and its position would be weakened if the owners discovered that a phoenix business was being planned. This not only means keeping

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the plans from the owners, but from the workforce as well – it would be naïve to imagine that in a large workforce such information would not find its way to the wrong ears.

Even after the plans are openly presented to the workforce, there may be a number of aspects of the work of the buyout team that may have to be kept secret – commercially sensitive information, for instance, or plans affecting individual employees. Particularly in large buyouts, advisers will encounter a very different world from the small new start businesses they are probably more used to. When there is a lot of money at stake human behaviour is often disappointing.

The adviser must think through the sensitivity and consequences of each decision, balancing these considerations against the need to involve everybody as much as possible, and to always exercise caution as regards how open the succession process is, particularly in its early stages.

The pensions minefield

The transfer of pension arrangements can become an extremely complex and difficult aspect of the buyout process.

There are often special difficulties attached to buyouts of former municipal services, because local authority superannuation schemes have particularly generous terms, and also special tax concessions for some investments. This makes it difficult for employees to maintain the same standard of pension arrangement. Similar problems, though perhaps to a lesser extent, might arise in any buyout of part of a larger organisation with its own pension scheme, or indeed where any major restructuring of the workforce is necessary.

This whole question is closely involved with commitment, especially if the demography of the workforce is adverse. If the buyout could involve some loss of pension rights, for instance, this is likely to loom large in the eyes of employees nearing retirement.

If the existing business has a pension scheme, therefore, and particularly if it has a mature or ageing workforce, the adviser must discover the main terms of the scheme and begin work on how it is to continue, or how its value can be transferred to another scheme, at an early stage. A trustee of the company scheme will be able to provide some of the answers, and of course people trying to sell alternative schemes will always be willing to 'help', but in all probability some independent advice will be required.

Questions on management/employee commitment

Who currently owns the business? What are their plans?

Is the current management sympathetic to the idea of a democratic succession?

Does it have any alternatives?

Are any other key people likely to oppose a succession?

Is the business unionised? Which trade unions are involved? Is the workforce organised or unified in any other ways?

Will the workforce welcome a succession plan? What alternatives does it have? Could it easily find work elsewhere? Will it make a financial contribution?

Is there a pension scheme? What is the age profile of the workforce?

What are the natural divisions in the workforce (eg shops, departments or shifts, trade unions or skill areas, white or blue collar)?

Is it necessary to keep the succession plans secret for the time being?

Questions on community commitment

Who currently owns the business? What are their plans?

What alternatives have been explored to date – trade sale, family succession – and with what success?

If the service were to disappear what alternative arrangements would the community make (ie how difficult would it be for them to secure a similar service and what would the impacts be for certain groups in the community)?

Is there sufficient community interest in the idea of a community succession/buyout?

Is there a core group of residents who are willing to form a steering/working group together with professionals (adviser, etc)?

Assessment of the Business

ASSESSING THE EASE OF LEGAL TRANSFER

The adviser must determine the the legal/financial structure of the existing business and consider how easy or difficult it will be to transfer ownership.

All business structures can be divided into two categories:

- Unincorporated - including sole traders, partnerships and most trusts and charities
- Incorporated - including industrial and provident societies, guarantee companies, public limited companies and private share companies.

This section looks at the main technical charateristics of the most common business structures and at the main issues for succession. Legal structures for successions are discussed in more detail on page xx

Unincorporated businesses

All of these will normally require incorporation as part of the succession process (although not necessarily – it might be better for tax or redundancy reasons to convert to a 'collective partnership', at least as a transitional arrangement). This, and the fact that unincorporated businesses are likely to be relatively small, means that in many cases 'model rules', such as those drawn up by Co-operatives[UK], are easily used. The main constraint is the need to transfer the business assets to the new democratic business and more particularly the means of payment, if any, to the old individual owners for this transfer.

The basic characteristic of unincorporated businesses is that they are not separate entities from their owner-managers: as regards tax, contracts and any other legal or formal purposes the owner-managers act and are treated as individuals and of course have unlimited liability for the obligations of their business. The personal circumstances of the old owners, especially with regard to tax, are therefore likely to be of some importance.

Sole traders

A sole trader is an individual in business 'on his/her own'. It does not mean a one-person business - many sole traders employ significant numbers of people.

Partnerships

Any group of between two to twenty people who trade 'with a view to profit' in such a way that they share the risks and profits (ie are not employees) will be considered a partnership whether or not they have a partnership agreement. If they do not have their own agreement, their relationship will be governed by the Partnership Act 1890, which provides a basic standard agreement.

Bridging the gap to some extent between the unincorporated businesses and one of the main features and advantages of the incorporated business, namely limited liability, is the relatively new concept of limited liability partnerships. It has always been possible for 'sleeping partners' to limit their liability to the capital they have invested, but the limited liability partnership extends this to potentially all partners – even those actively engaged in the partnership business.

Trusts and charities

A trust is a body established by some kind of trust deed, usually to administer funds on behalf of a group of people or for some more widely benevolent purpose. A trust can be incorporated as a guarantee company, which is then known as a 'trust company', but often still referred to simply as a trust.

A charity is an organisation, usually a trust, but nowadays increasingly also a guarantee company, recognised by the Charity Commissioners (known as a 'registered charity') or granted charitable status by the Inland Revenue (an exempt charity). In England and Wales only 'societies for the benefit of the community' can gain exempt charity status.

Again, trusts and charities are not really businesses, although they can trade to some extent. Advisers are most likely to meet trusts and charities either as voluntary bodies wishing to incorporate as some kind of community co-operative, or as additional aspects of a converted business, such as a profit-sharing trust to facilitate the tax-efficient transfer of shares to employees.

Incorporated businesses

Industrial and provident societies

Industrial and provident societies (IPS) are either co-operatives or 'societies for the benefit of the community'. Until the mid-1980s, when co-operative company structures were first developed, all co-operatives were registered as IPSs. Advisers may encounter IPSs as subjects for succession, or they may consider setting up an IPS to purchase the assets of the existing business.

Guarantee companies

Many advisers will be most familiar with this form of company and from a technical point of view it is usually easy to convert. The members of a guarantee company

Assessment of the Business

have each guaranteed to pay an amount to the company in the event of it not being able to meet its debts. Normally, the guarantees are limited to a nominal amount, often £1. Succession can take place simply by changing the Memorandum and Articles of the company, although in some cases, for instance if the company is in financial difficulty, the transfer of its assets and activities to a new company or partnership might be preferable. In this case, the succession process will also probably involve winding up the old company. Conversion from a guarantee company to a society is possible, and succession to a new society or a share company is also a way forward.

Public limited companies (PLC)

In general, because of the size and nature of their share capital, the succession of a PLC into a genuinely democratic business is extremely difficult and even a successful asset purchase is unlikely. Advisers are only likely to come across PLCs as vendors of a subsidiary or aspect of their business, where the buyout process will be as below.

Private share companies

These are by far the most common form of company and very likely to account for most of the successions on which advisers work. Each member of the company has at least one share (there are frequently only two or three members in small companies and often they are husband and wife or other relatives). Whatever the members have paid or agreed to pay for their share or shares is the limit of what they are liable to pay if the company cannot pay its debts.

Succession can be by changes to the Memorandum and Articles, but this will not be as straightforward as with guarantee companies, because shares will also have to be transferred. As shares are commonly traded in circumstances where there is a great deal to be gained and lost, there are comprehensive rules governing their transfer. In general, it is first necessary to arrange the share transfer, and then the new shareholders can change the Memorandum and Articles of Association. Succession could also be to a new society or a guarantee company. Again, in most circumstances it will be preferable to transfer the assets and activities to a new democratic business structure.

PRELIMINARY ASSESSMENT OF FEASIBILITY

Forming a preliminary view

Assessment is, of course, an ongoing part of the succession process: at the initial exploratory meeting the adviser will have formed only a preliminary view of the feasibility of the proposal and begun to gather information for the next stage.

It will have become clear by now that succession situations are resource intensive, and although it might be galling to turn away a proposed succession when there is any chance of success, a hard-headed view of the likelihood, rather than the possibility, of success is sometimes necessary.

In the light of this, some general comments are justified as to certain characteristics of businesses that usually ease succession. These comments are also intended to assist in the identification of certain trade sectors or types of business that might form the best targets for promotion.

- While it is important not to jump to any conclusions about commercial viability, succession is certainly likely to be easier if the business at the centre of the succession process is profitable and independent.
- It is sometimes necessary to look more critically at the question *Are there any troops?* It is not only necessary to have the support of a sufficient proportion of the workforce and of key individuals, but it is probably also necessary for there to be the right kind of balance between the number of employees – or at least the number of people willing to invest – and the likely costs of a buyout. For example, if the business is very high-tech and employs only a few people but has massive capital investment, it will prove very difficult to raise sufficient funds. The basic rule here is:

  Capital intensive = difficult to convert

  Labour intensive = easier to convert
- In a community buyout, it may also be necessary to seek finance from members of the community particularly if a capital asset is to be purchased. This enables the community succession to test the 'commitment' water and allows access to performance related (rather than fixed interest) capital in which the providers of capital only receive a dividend if the community buyout is profitable.

Assessment of the Business

Community commitment

The 58 original members of the community co-operative Hesket Newmarket Brewery each invested £1,500 as shares to raise the capital to buy the business (see case study, page 45).

- For community buyouts in particular there is a range of grants which should be explored both for the feasibility study and for start-up finance. These can help to alleviate the finance to be raised and the interest costs to be born by the new business in the early years. This is discussed further in *Raising Finance* (page 23).
- The 'natural' cash flow of the type of business might be crucial, the general rule being the higher the cash flow the easier the buyout. Conversely, business sectors that have low cash-flow, particularly if they are also capital intensive (say, property development) will prove very difficult to convert. Again, this will be further explored under *Raising Finance* (page 17).
- In a large buyout the process will be considerably eased if the workforce is already organised, for instance if there is a strong (and sympathetic) trade union organisation and tradition of solidarity in the business, and especially if the workforce leaders are widely trusted and respected and can act with real authority. Almost all successful large buyouts have shared this characteristic. This may also be important where political influence is crucial.
- It is not only the relative size and organisation of the workforce that is important, but also its demography. Maturity is probably an essential requirement but on the other hand if most of the employees, or key employees, are nearing retirement age, and especially if there is a good existing pension scheme, they may well prefer the option of early retirement.

Summary

These business characteristics make buyouts easier:

- profitability
- independence
- labour rather than capital intensive
- positive cash-flow
- organised workforce
- favourable demography

Contents of the feasibility report

In most cases an adviser should prepare a preliminary feasibility report before completing the work involved in estimating the buyout costs.

In almost all cases the work of contacting advisers and other consultants, interviewing them to establish what they can offer, perhaps some further discussions and finally obtaining a written estimate, will take place at subsequent stages and should involve the whole buyout team. Nevertheless, an attempt should be made to give some idea of the likely costs in the initial feasibility report – or at least to sound a note of caution in the report if it is clear that there will be substantial costs.

The feasibility report contents are as follows:

- Introduction and summary
- Brief history of the business
- The market and competitors
- Personnel
- Production
- SWOT analysis (Strengths, Weaknesses, Opportunities, Threats)
- Financial projections
- Proposed succession procedure and preliminary estimate of succession timetable and costs

This is not a business plan. It is merely a presentation of the adviser's views, at this stage, of these areas, with particular reference as to how they affect the overall viability of a succession or buyout. In some areas – for instance the financial projections – only preliminary estimates will be possible at this stage. Nevertheless, the feasibility report is a kind of working draft business plan and should provide a firm basis for the detailed planning work to come.

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Big money

UBH International raised over £2million leveraged from employees' contributions of £450,000 (90 @ £5,000) and without the need to dilute the manager/employee equity (see case study, page 49).

One of the most important developments in successions and buyouts over recent years has been the demonstration that employee buyouts can put together very large financial packages. This is the first lesson on raising finance: *don't be put off by the amount involved – almost anything is now possible*.

Having made this claim it must equally be noted that the deals which were highly leveraged did not always prove to be sustainable. Just as many management buyouts have had a tendency to 'sell on' after a few years so that the purchasers can realise their investment and capital gain, the same temptation has befallen some employee buyouts.

Banking policies and financial fashions do change and this must be borne in mind when reading this section. There is a range of financial mechanisms that have been used to finance community and employee successions, and while it is certainly the case that commercial techniques have been used to finance succession situations, the raising of working capital remains a key issue.

THE BUSINESS PLAN

In business start-ups, *first* the business plan is finalised, *then* it is implemented. Many advisers will try to insist on this strict order of things in succession and buyout situations, but they are unlikely to experience such luxury. What takes place instead is an altogether muddier process, which addresses the most urgent questions first, produces a series of approximations, bluffs its way on these for a bit, gradually clarifies the best options, takes on provisional forms, confidently presents these to banks, reconsiders the options, and is only really finalised the day before the papers are signed.

What finally emerges will be a fairly conventional business plan. The preparation of such plans is at the heart of most advisers' jobs and there is no need to further discuss the business plan content here.

There is, however, one crucial area of difference between the adviser's responsibility in planning a new start and planning a succession or buyout. This is not a technical difference but one of judgement.

New businesses are generally started by people who have chosen quite freely to take that route and those risks. In a succession situation the employees or members of the community are not in quite the same position. If they are not actually members of the buyout team, they may have only a partial understanding of what the succession entails, how the business will develop and how it will be managed. Any decision to invest in the business will probably be based on considerations such as loyalty, fear of unemployment, trust in their representatives, and in community buyouts on the need for the service, rather than on any objective assessment of the business's future.

Of course, advisers must make every effort to fully inform and involve the whole workforce/community, as already discussed, but they are kidding themselves if they think they can completely overcome the barriers to this. They therefore have a particular responsibility to act in the interests of the whole workforce/community, particularly if they are all investing some of their own money. The questions they need to ask are the same as with any business:

- Will this really work?
- Does it feel quite right?

However, in succession situations there is a greater responsibility to make this judgement and stand by it very forcefully, whereas with a new business it is perhaps more acceptable to express concern but leave the final decision on viability mainly to the group, or to suggest a middle course (such as trial trading), which will probably simply not be available in a succession situation. This is again the thorny issue of the leadership role, rather than the advisory or facilitation role, that is demanded by succession situations and buyouts.

The bank should be looked on as the adviser's ally in standing by their judgement of the business plan. The need to present a reasonably finished business plan to the bank (before finance is agreed) provides a very useful deadline, and the objective, even sceptical appraisal of viability by the bank should give the adviser much more confidence in making his or her own objective judgement.

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WHAT BANKS ARE LOOKING FOR

Advisers are already aware of the policies and prejudices of banks and the general guidelines for approaching them, but factors that are specific to successions and buyouts need to be outlined.

However, a further distinction must immediately be drawn: that between broadly benevolent or planned successions on the one hand and rescues on the other. The former may attract the prejudice: if it works, don't fix it. Rescues, on the other hand, might attract the opposite view: if it has failed once, don't fund it. The easy logic of these slogans is deceptive: they are prejudices because the new business plan might, in either case, be a basis for improved performance in the particular business in question. Such prejudices cannot be dismissed: they must be challenged precisely by the strength and credibility of the business plan and especially by those who are to implement it.

The people banks are looking for

It is the people involved that constitute the most important factor influencing banks. Furthermore, banks want to see the managers free to manage, without day-to-day shop-floor interference. In large businesses (particularly those just entering into democratic ownership and which are therefore still discovering what democratic management really is) specialist managers are absolutely essential. The necessary depth of skill in business administration may not be found in other employees – at least in the early trading period. Such managers must have the freedom to take decisions without constantly referring them to various committees or meetings, and more importantly without fear of summary action being taken against them by an angry meeting.

Underlying this point is the general need for appropriate and effective arrangements for democratic participation. These must make the managers both answerable to the workforce, perhaps after a transition period, and at the same time free from petty interference, and free to make unpopular decisions if necessary. The arrangements must facilitate both consensual, open management and strong dynamic management. A system of checks and balances is required that will work to stabilise the management – this is one reason why Employee Share Ownership Plans are generally easier to fund than simple co-operatives. A further aspect of this problem is that banks will have the expectation that the business's managers will be financially tied in to its performance, because they are risking their own money and, moreover, because they stand to gain a great deal if the business is successful. All of these issues are discussed further below – the main point here is to note what banks will broadly be looking for.

In general, banks will also want to see some continuity of management, to give them confidence that somebody who knows the ins and outs of the business is in an influential position. If the business has experienced some difficulties, they will look for changes to strengthen the management team in crucial areas.

The adviser must be aware that if none of the old managers can be involved in the buyout any borrowing is likely to be extremely difficult. The only possibility in this case is to find a new management team with some kind of track record. This can be done in three ways (or a combination of them):

1. **Recruit a new team, or at least a team leader, from another similar business.**

   This might be attempted either by personal contacts or by advertising. However, it will not be easy, mainly because the position will be speculative: the candidate will have to put a great deal of time and energy into leading the buyout, but also accept that should the buyout attempt prove unsuccessful there will be no job. Nevertheless, there may be suitable sympathetic candidates, such as recently retired or unemployed managers, who would be happy to get involved speculatively, perhaps for a limited period while new management from within the existing workforce is trained.

2. **Recruit a new team from the existing workforce.**

   This is an even longer shot because by virtue of the situation itself the candidates are unlikely to have the necessary track record. What might just work is to find people with the right aptitude and some experience who are willing to start thorough training while strengthening the team, and reassuring the bank

Finding understanding funders

Brian and Dave who bought Ashington Autospares from the retiring owner found it hard to find advisers and banks who understood what they were trying to do. Eventually, after much frustration, the Royal Bank of Scotland provided a mortgage to buy the building, and further help came from the local district council and Industrial Common Ownership Finance (ICOF) which provided a loan (see case study, page 59).

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in the meantime by employing experienced non-executive directors to oversee the management.

3 **Enter into an arrangement with the management team of a similar democratic business.**

This has been possible in the bus industry, for instance, and was explored by Leicester CityBus and Chesterfield Transport. It was agreed that ownership of CityBus should be shared 25-30% to Chesterfield's Employee Benefit Trust, 25-30% to Leicester's employees directly and 40-50% to Leicester's Employee Benefit Trust. The arrangement did not come to fruition (or hasn't yet) but it was acceptable to the banks. However the obvious difficulty here is the scarcity of large democratic businesses and their geographic distribution.

Borrowing for rescues is of course particularly difficult, and big rescue buyout attempts find it difficult to achieve really substantial borrowing (phoenixes are only a little less difficult). The first essential is of course a very strong succession strategy. Banks will be looking for a very substantial restructuring, and in all possibility a contraction, not only of the management but also of the basic business activity.

The figures banks are looking for

Apart from the people and any continuity arrangements in the business plan, banks will naturally tend to focus on its financial aspects. There are few hard and fast rules: precisely because banks see themselves as lending to people, rather than to plans, and the right approach can count for a lot. On the other hand, individual bank managers now tend to have very little autonomy so for any substantial lending the following rules of thumb are useful.

Gearing

Many figures are bandied about as to what 'gearing' (debt/equity ratio) banks will accept. Since most new starts, and many mature co-ops, continue to borrow when they are 'infinitely geared' (ie they have no equity, which in guarantee company structures can only be in the form of retained profits anyway) all such figures should be taken with a pinch of salt. It is certainly true, however, that banks prefer a 1/1 (or £ for £) ratio. They will usually accept a 2/1 or even a 3/1 ratio, but above this they will certainly start to look very critically at the business plan, and make demands for further safeguards with regard to the management structure, security, and so on. Larger gearing ratios are possible but they will almost certainly only accept such figures if the financial projections show very clearly the reduction of the gearing within a short period (by quick repayments, fast capital growth, large retained profits, further finance, etc).

Interest cover

This is another, perhaps less familiar ratio: net profit (before interest and tax)/interest. It assesses the business's ability to repay its loan commitments. This is often expressed as a percentage, ie:

$$\frac{\text{net profit + interest + tax}}{\text{interest}} \times 100$$

Banks will be looking for at least twice as much profit as interest, a ratio of 2/1 or interest cover of 200%.

Cash flow cover

Similarly, banks will want to see cash surpluses of at least twice the level of total interest and loan repayments.

Sensitivity analysis

The above requirements are really aspects of the 'sensitivity' issue. Banks want to see plenty of room for error in the projections, so that if profits or cash flow are not as high as expected, interest and loan repayments can still be made. They will certainly carry out other 'what if' calculations: what if sales go down by 5%? inflation goes up by 2%? the cost of such-and-such turns out to be 10% higher? Careful business planners will, of course, already have explored all the likely scenarios. The most sensitive assumptions are usually the following:

- Selling prices and quantities
- Stock levels (or stock turn)
- Overheads
- Debtor and creditor periods (ie the average time it takes to collect or pay bills)
- Wage costs (staff numbers)
- Interest rates.

Note that figures such as stock turn and debtor and creditor periods are often analysed by means of financial ratios. The debtor period, for example, is calculated as follows to give the average in days:

$$\frac{\text{debtors}}{\text{annual sales invoiced}} \times 365$$

Stock turn is expressed more simply as the number of times the stock is turned over in a year, thus:

$$\frac{\text{annual cost of sales}}{\text{average stock}}$$

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The relative importance of different ratios changes with different types of business. Debtors will be most important in areas like services and construction, stock turn in distribution and retailing, and so on.

Although great store may be placed on the comparison of ratios the adviser must remain aware that they only really show past trends and cannot predict future performance. Where there is a great deal of competition between similar organisations trading in the same or similar business of the succession project the ratios can also indicate market position. Nevertheless comparison of ratios is a process which most lending institutions will use as part of the decision making process.

Security demanded by banks

Security is the most difficult area for democratic businesses – but unfortunately for many banks it still seems to be the be-all and end-all of borrowing. This reinforces the point made earlier that banks usually prefer to lend on assets rather than against cashflow, and this is almost always the 'gap' which is the most difficult to fill. Equal (or near equal) amounts of equity from the employees or community members may help to ensure that the business manages to lever in the finance it requires. There is always a danger that managers/employees/community members will be asked to guarantee overdraft, leasing or other finance. Guarantees are discussed in more detail below.

Equity

Gearing is one aspect of this – it is of such interest to banks for three main reasons:

- Equity is higher risk than bank debt (ie it is lower down the 'pecking order' for repayment in a liquidation), so the more of it there is, the less the bank's money is at risk;
- Dividends on equity can only be paid out of profits, but debt interest is fixed and must be paid whatever – so the larger the equity the greater the business's flexibility in meeting its finance costs, especially in difficult times;
- The cost of equity is less subject to unforeseen economic changes (like rises in interest rates).

Employee or community members' equity will not always be required but there is a reasonable probability that it will. This is not only to do with raising the finance but also to do with commitment and with the stability of membership, for instance, which is outside the scope of this guide. Advisers will need to consider very seriously the necessity for employee or community investment if substantial finance is required.

Even if the employees and/or others are to buy shares, and the gearing is quite low, the bank will probably require additional security. This takes two main forms: personal (or third party) guarantees and legal charges.

Guarantees

Some lenders have adopted a policy of not asking for personal guarantees on the grounds that the additional stress they tend to produce in managers is counter-productive. Such a sensible approach is rarely encountered in high-street banks: but might be a useful piece of information in the adviser's negotiations with them!

If possible, personal guarantees should be individual limited guarantees, rather than joint and several. In the former arrangement each individual guarantees a specific sum, whereas in the latter they each guarantee it all (which means that the bank will be able to pursue the individual they regard as most likely to repay the whole amount). If only joint and several guarantees are accepted, it is essential that joint indemnities are also signed amongst the guarantors themselves. This is a formal agreement that they will all share any payment under the guarantees equally between them.

Sometimes local authorities or specialist regional/national loan fund can be used to provide third party guarantees, usually as part of a larger package. Some local authorities seem to quite like the idea of guarantees. The adviser should find out the attitude of relevant local authorities.

In large buyouts, guarantees become much less relevant – mainly because the amounts involved are completely out of proportion to any personal or indeed (available) local authority resources. In such cases the legal charge and the 'asset backing' become proportionately more important.

Legal charges

Legal charges can be either fixed or floating.

- Fixed charges are charges over specific assets – just like a mortgage – and give the bank some of the rights of ownership over that asset: for instance the business cannot sell it without the bank's permission, but if the business defaults on its loan the bank can sell the asset to recover its money.
- Floating charges are over the assets in general rather than any specific asset, and give no such rights unless they are 'crystallised' by certain events, such as the

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business falling behind on its loan repayments or going into liquidation. Even in these circumstances, however, a floating charge is not as secure as a fixed charge because it is lower down the 'pecking order' for payment in a liquidation. A fixed charge entitles the bank to be paid first, whereas a loan secured by a floating charge will be paid before ordinary creditors but only after preferential creditors (which include employees and government departments). What banks will be looking for here, of course, is that the realisable asset values (which will be lower than the 'going concern' or 'book' values) are larger than their loan, usually by at least 30%.

Share company credibility

Cwmni Gwynt Teg Cyf needed to raise £1.5million to develop a wind farm. Although a community project the members decided to set up a company limited by shares because that structure was more familiar to their potential funders. (see case study, page 43).

The adviser should remember that one of the advantages of a company limited by shares is that a bank or other lender can take additional security over the shares themselves. This is less likely were there a substantial number of individual members, particularly in community successions. This factor can greatly influence the form of legal structure to be used in a succession where substantial capital needs to be raised.

How to approach banks

More than one bank should be approached, and other lenders should not be ignored. On the other hand, it is probably a mistake to 'do the rounds' – if two or three lenders prove unenthusiastic, the adviser should re-examine the approach. Also, bear in mind that lenders do talk to each other – an unusual proposal might become the subject of discussion which will prevent a lender seeing it with fresh eyes.

One technique some advisers swear by is to make the first approach to the bank's head office – the theory being that if a proposal is passed down to a branch from head office it will automatically receive respect. However, this advice tends to come from advisers in places like Glasgow and London, where an initial approach to a head office which happens to be in the same city as the branch that eventually appraises the loan looks like less like an attempt to 'play the system'.

What banks want to see in employment contracts

Needless to say, the adviser should make sure that new employment contracts are designed to reflect democratic practice and a concern with equal opportunities, and are issued to all employees. These can be based substantially on the existing model employment contracts in the co-operative movement, such as those prepared by Co-operatives[UK]. All employees' service is continuous unless this has been surrendered to obtain redundancy payments. Service conditions cannot be worsened without the specific consent of each individual employee, or they would be entitled to resign and claim 'constructive dismissal' which is likely to be unfair and, because their service is also automatically continuous, means that the new democratic business will have to pay them compensation if they were employed in the old business for over 12 months. Where the Transfer of Undertaking (Protection of Employment) Regulations apply, as they will in most if not all successions, it may not even be possible for employees to consent to changes where they arise in connection with, or relate to, the 'transfer'.

However, there is one area in which it may be necessary for service contracts to depart substantially from normal co-operative practice. This arises because banks, and in all probability the managers themselves, will want special provisions built into managers' contracts. These provisions fall into two areas: performance related pay and protection from summary action by the workforce.

Performance related pay

In most management buyouts the shares are held in fairly substantial chunks by the managers only. These shares will only increase in value if the business performs well, and conversely if the business performs badly the managers will lose their investment. In most cases they will have borrowed the money they used to invest in the shares, and therefore risk losing the house, or whatever they used to secure their personal loans. It is this substantial personal financial commitment by the very people that will be running the business that makes conventional management buyouts relatively easy to finance. This is not because their investment is a big part of the total funding requirement – it probably isn't – nor because they have made any real sacrifice – in most cases they receive immediate pay rises to cover their loan payments – but simply because, with a full knowledge of the business, they have been willing to take the risk, and stand to make a great deal of money if they succeed. Banks love the idea that somebody else who really knows

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the business is willing to take a greater risk, and is further locked in by the scale of the incentive to succeed.

An adviser is therefore likely to encounter a strong expectation that the democratic buyout will place similar demands and rewards on managers. This expectation should perhaps be resisted, but it can also be negotiated in various ways. In all but the smallest buyouts there are bound to be wage differentials, and it may be politic to introduce an element of performance related pay which to some extent shadows what managers would have received from the capital growth of a share investment had there been a management buyout. There are a number of established mechanisms for achieving this which have been incorporated into service contracts.

Much more controversial is the option of actually allowing management a larger shareholding than other employees. This may call into question the whole purpose and definition of 'democratic business'. It is worth saying that the workforce's feeling of involvement in the business will be much more seriously affected by the management having a different basic 'stake' than by management receiving higher pay. It is also doubtful whether managers themselves would want a bigger stake unless they could achieve a controlling interest. The only circumstance in which this could be entertained is as a transitional arrangement in a last ditch attempt to save some kind of buyout. However, any such arrangement will be unsafe, because however carefully the Articles of Association provide for the return of the shares to general employee ownership when the particular managers involved leave (and changes to the Articles can be blocked by a 26% non-management employee shareholding) the performance of the business could easily be manipulated by unscrupulous managers either in their short-term interest or in order to make the further dilution of democratic shareholding unavoidable.

Protection from summary action

Provisions protecting management from summary action by the workforce can be built into the democratic business' Articles of Association and its secondary rules and practices. The issue should first of all be discussed with as many of the workforce as possible – and in any case the whole workforce should be fully informed – so that everyone understands that the management must feel free to make unpopular decisions if they can ultimately show that they are acting in the business's real – perhaps long-term – interests.

In addition, it may well be necessary and appropriate to incorporate such protection into the managers' individual contracts, along with provisions securing their services for a minimum period, so that the banks are satisfied not only as to the general stability and responsibility of the management, but that the individual managers they have met across the table will be able to complete the plans they have put forward. This could mean that if the managers do leave within the specified period (normally 2–3 years) they might be sued for breach of their contracts, but conversely the business will risk penalties if it dismisses them in this period. Again, appropriate provisions have been incorporated into contracts for a number of previous buyouts.

Key person insurance

One last matter relating to individuals' terms and conditions. The bank might well ask for 'key person insurance'. This means they require the business to take out life insurance policies – and meet the premium costs – which will repay the bank borrowing if the business suffers as a result of a key individual (man or woman) becoming unable to work.

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SOURCES OF FINANCE

Succession situations are financed through grant, debt, equity and usually a mix of all three. The legal structure of the new entity will dictate the type and source (to a large degree) of the finance it is able to attract.

Grants

Grant finance is ideal because it is non-repayable. It is difficult to give general advice because most grant sources are local and often dependent on the changing status of a local area. Most local authorities have some kind of business grant support arrangements, but the maximum grants tend to be very small. If the buyout is a rescue of a significant employer in the area, a special one-off approach – outside any standard business grant procedures – should always be made to the local economic development or regeneration department, which could take on the responsibility of co-ordinating an assistance package involving the local Business Link, Learning and Skills Council, County/District Councils and so on.

Debt

Leasing

Leasing can quite easily form a major part of the financial package, and should certainly always be considered. Leasing and/or hire purchase are financial facilities which allow a business to use an asset over a fixed period in return for regular payments. The finance company buys the asset(s) on behalf of the business and rents or leases it back to the business. In the case of hire purchase, after all the payments have been made, the business becomes the owner of the asset(s) (and is therefore able to claim capital allowances) either automatically or on payment of an option to purchase fee. The fundamental characteristic of a lease (finance or operating) is that the asset(s) never passes into ownership of the business.

The only disadvantages with leasing are the high costs and the potential requirement for guarantors. However it can make the difference between a buyout proceeding and failing, particularly if a leasing company can be found which is willing to 'sweat' the assets (ie advance a high percentage of the assets to the new business).

One further possibility that should not be overlooked, especially where the owner wants to sell to the workforce or community, and in divestment or some rescue situations, is that of leasing the equipment from the former owner, or paying part of the price in instalments. It is possible for the adviser to be very creative in putting together the financial package essential for the successful succession.

Factoring

The term 'factoring' is used to describe a whole series of different arrangements, ranging from fairly straightforward borrowing using individual debts as security through to full invoicing and debt-collection services. Such an arrangement might be a significant source of finance for a service business, most of whose assets might be in the form of large debtors. Factors or invoice discounters provide businesses with debtor finance secured against unpaid invoices. A factor will buy the trade debt (invoice) and typically pay between 65% and 85% of the value of the invoice as soon as it receives a valid copy. The business is usually charged a fixed arrangement fee together with interest on the outstanding balance. This can make the cost of factor finance quite high. The balance minus charges will be paid to the business on collection by the factor. A factor collects the debt from the customer directly whereas the responsibility for collection of debts which are invoice discounted lies with the business and the service is normally undisclosed to customers.

Overdrafts

Overdrafts are usually an appropriate way of financing short term working capital requirements. Although they are a relatively simple and useful mechanism (interest is only payable on the outstanding amount) they are a relatively expensive form of finance and are usually repayable on demand. In addition, the bank will almost certainly require some form of security.

Term loans

A term loan may be used to fund a business purchase, fixed asset and/or core borrowing. The level of interest of a term loan is usually fixed for the term of the loan or linked to the base rate. Loan terms can be tailored to suit the life of the asset or to match the cash flow of the project to be financed. The Small Business Service (SBS) Small Firms Loan Guarantee Scheme guarantees loans from banks and other financial institutions. Loans are potentially available for periods between 2 and 10 years on sums from £5,000 to £100,000 (£250,000 if a business has been trading for more than 2 years). If accepted, the SBS guarantees 70% of the loan (85% if trading for more than 2 years) for businesses with a turnover of up to £1.5m (£5m for a manufacturer) in return for an interest rate premium.

Advisers should also be aware of national loan funds for

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co-operative or other 'social' investment, such as ICOF, the Co-operative Bank and Triodos Bank, and indeed any local funds (see pages 62 and 63 for details).

Equity

Except in the smallest buyouts, such as service businesses without any substantial fixed assets, there is almost always the opportunity for some private investment by the members of the new democratic structure – most likely the employees. Even if this investment can only be modest, and makes no significant contribution to the total finance requirement, it does at least 'show willing' and will give some comfort to other lenders. The possible arrangements for such investment fall outside this guide.

It is obviously important to discuss the level of employee investment at an early stage. This will be a negotiation around:

- What each employee can afford
- What the total financial requirement is.

Most buyouts seem to be able to achieve investment from the employees. They may need personal loans from a bank to make this investment, and banks are normally very receptive to this business. If there is a reasonable number of such loan requirements the adviser should approach a number of banks to negotiate a special deal. The adviser will be looking for:

- A lower interest rate than on standard personal loans
- No security (make it clear that the business is not guaranteeing the loans)
- Not subject to status, other than the individual being an employee of the business.

All of these have been achieved in similar arrangements in the past. The succession process is offering the bank an opportunity for new business, and the adviser may even be in a position to make their life easier by establishing payroll deduction of repayments. Advisers should therefore drive a hard bargain. Banks will be most reluctant to say that the loans will not be 'subject to status', but the bank manager might nevertheless indicate that no-one will in fact be refused.

Banks can be co-operative

In the case of UBH International, personal loan advisers from the Co-operative Bank were on hand to support the 90 employees and a freephone number was established (see case study, page 49).

In most democratic buyouts the investment has been kept the same for each employee, and this is probably a good policy. A fall-back position is to allow differential investment but within limits, and only in forms that do not affect voting rights.

A saving scheme should be set up at the earliest opportunity to help the employees to make their investment in due course. The additional importance of this arrangement in testing workforce commitment, and in enabling them to feel involved, has already been emphasised. For small workforces the simplest arrangement will be best: the buyout team appoints a treasurer who opens a building society account, each employee simply hands the treasurer a regular weekly amount, which is paid into the account as a lump sum to gain better interest (although this will have to be paid net of tax). The interest can be used as agreed: to meet small incidental expenses of the buyout, or credited to each saver, or a mixture of these. Think this through, however: if the decision is taken to allow employees to save at different rates, or withdraw money, the treasurer's interest calculations might become very complicated. With larger workforces more sophisticated arrangements will in any case be needed – for instance it may well be possible to deduct contributions direct from wages – and the adviser should talk this through in some detail with the bank or building society: they should be able to advise on the best possible arrangements.

For community buyouts there is a significant cost saving in opting for an industrial and provident society share issue rather than going through a company. This is because the share issue does not fall under the provisions of the Finance Act 1986 (as long as the shares are not transferable, ie there is no market for the shares). There is no requirement therefore to issue a prospectus approved by an authorised investment adviser.

IPS share issues

Because Hesket Newmarket Brewery is a co-operative society with non-transferable shares the provisions of the Finance Act did not apply and it saved money on professional fees for its share issue (see case study, page 45).

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DUE DILIGENCE

'Due diligence' is the term used (often by financiers and lawyers) to describe the process which is gone through in order to ensure that the purchasers and the funders/financiers are sure of what it is that they are buying – that the business is sound, free from any liabilities, encumbrances and that there do not exist any serious risks ahead (at least in the near future) or at least if they do exist they are aware of them and can factor them into their consideration. In the case of a small buyout due diligence will be carried out by the business adviser together with other specialists – it may not be an onerous process. In the case of a larger buyout and/or externalisation due diligence will almost certainly be substantial and will be a requirement of the financiers. This may include:

- Financial due diligence which may cover areas such as accounting systems, controls, forecasting systems, cashflow, equipment leasing contracts, etc;
- Legal due diligence may cover major contracts, banking terms and conditions, contingent liabilities, regulatory matters, employee and management terms and conditions, pensions, insurances, health and safety issues, intellectual property, and property details, etc.

If the business owns property it may be necessary to obtain a report on title. The purchaser will also be interested to know if levels of insurance are adequate together with recommendations on cover for the future.

It must be added that the very process of transfer is a stressful one in which employees or community members are undertaking additional work on top of their duties or their jobs. Substantial due diligence will only add to that stress.

Legal Structures for Succession

DIFFERENT OPTIONS

There are a number of legal structures that can be adopted to facilitate succession. The most appropriate generally depends on factors such as the purchase price of the business, the finance available to the initiators, the size of the business, the number of employees, and the management structure they wish to adopt.

The purpose of this section is to give a little more information on the different options that are available. Advice should be sought on which is the most appropriate for the particular succession project.

The process of achieving employee or community succession usually involves the employees or the community either buying the assets and undertaking of the business which employs them, (the target company) or the employees or the community purchasing the shares in that business, directly or indirectly. There are advantages and disadvantages to each option which should be explored by the advisers.

Most of the legal structures discussed below are 'incorporated'. That means that a separate legal personality is created in law which owns the business separate from the individuals who own the shares in that incorporated personality (or 'company'). The individuals have limited liability if the business fails. For example with a company limited by shares the maximum liability of the shareholders to contribute to the losses of the company is limited to the value of their shares. The price the individuals pay for this protection is a greater disclosure burden under the requirements of the Companies Acts and similar legislation.

Company limited by shares

A company limited by shares is the most common form of company for business purposes. Employee ownership in a company limited by shares is usually facilitated by the employees becoming the shareholders. A company limited by shares may not be common for community succession, but it cannot be ruled out.

The employees may establish a new company (Newco) to purchase the assets and undertakings of the target company. The employees may purchase the shares in the target company directly from the retiring owners. The employees may establish their own company which purchases the shares in the target company from the retiring owners. The proportion of share capital held by the employees will dictate the amount of control they have over the company as a whole as owning shares entitles the employees to vote at general meetings of the company.

Share capital provides equity. If the business fails, the shareholders are the last in the queue to be paid out – banks and other funders tend to feel more comfortable if there are funds 'at risk' before theirs.

In a purchase of a small company the employees may expect to own all the shares. Where the purchase price is high and/or where there are a larger number of employees it may be appropriate to establish an employee benefit trust which would become a shareholder in the new company. Another option is to seek an outside shareholder. Less frequently, the owners might facilitate a purchase by selling their shares in stages, with a majority of shares passing to employees at the beginning.

Some of the employees will usually become directors of the company, and in larger companies non-executive directors may be appointed. Retiring owners may be asked to stay on as directors for a year or so after selling the business to assist in an effective transition.

There are two common types of shares: ordinary shares and preference shares.

- Ordinary shares usually carry one vote for each share and therefore the more shares an individual has the more votes he or she has. Shareholders working together can increase their power further. Their value depends on the size of the shareholding compared with the value of the company as a whole.
- Preference shares have a fixed value and often have restricted, special or no voting rights. They usually have preferential rights to a dividend and to repayment. Preference shares are often considered as a loan in the form of shares. They are more commonly used in purchases of larger companies.

There are some potential problems with the use of companies limited by shares in succession cases. First, as ordinary shares usually carry one vote per share,

Two employee companies

Savant Enterprises Limited comprises two companies: the employee benefit trust, Savant Group (EBT) Limited has the controlling interest in the operating company, Savant Group Limited. The EBT has 75% of the votes at the general meetings of the operating company and appoints one of the four directors. The remaining three are executive directors from the operating company itself (see case study, page 57).

Legal Structures for Succession

maintaining equal votes between the individual participators can be difficult. This may be overcome through the use of different classes of shares or by restricting the normal voting rights. Secondly, while a company may purchase its own shares, if permitted by its Articles of Association, it must follow a rigid procedure through passing special resolutions and if the purchase is to be financed out of the capital of the company the directors are required to make statutory declarations as to the solvency of the company. The use of Employee Benefit Trusts can assist with this particular issue.

The point is that the adviser must be aware of the flexibility that each structure can bring and be creative in reaching a structure that meets the particular needs of the initiators.

Co-operatives[UK] has developed model rules for registering companies limited by shares.

Industrial and provident society (IPS)

An IPS is an alternative structure to the company limited by shares. Although it is very similar, it being a corporate body with share capital and limited liability, a fundamental principle is that of democratic control by its members. In an IPS, regardless of the number of shares owned by a member, the society is governed on a one member one vote basis. This business option can be appropriate where the employees are anxious to ensure that the business is run on a co-operative, democratic basis or where a community wishes to take over a local authority function as a not-for-profit organisation, or to buy a trading enterprise.

The regulator, formerly the Registry of Friendly Societies, now part of the Financial Services Authority (FSA), requires that the rules of the society comply with the seven co-operative principles (established by the International Co-operative Alliance) if it is to be a co-operative, and examine the rules on registration to ensure this is the case. If it is to be a not-for-profit body the FSA considers whether its rules genuinely provide that the society is for the benefit of the community. Unlike companies legislation, IPS legislation is specifically designed for co-operatives and for societies for the benefit of the community. Co-operatives[UK] has developed model rules for registering IPSs as co-operatives and societies for the benefit of the community.

Company limited by guarantee

Sometimes a company limited by guarantee is established as the successor. A company limited by guarantee does not have share capital and rather than shareholders it has a number of members who each agree to contribute (usually £1) towards any debts of the company. It is the structure that is often used by not-for-profit organisations and is also used where the employees wish to establish a co-operative. Since a company limited by guarantee has no share capital its capital must be obtained from loans, grants and retained profits.

Two community companies

Kielder community buyout led to the setting up of a company limited by guarantee which is a registered charity with regeneration objectives. Membership of Kielder Limited is open to all residents of the Kielder parish. Kielder Limited also owns a trading company limited by shares to carry out the non-charitable and trading activities. (see case study, page 41).

Because many community and not-for-profit organisations are registered as companies limited by guarantee, this will be a familiar legal model for those involved in a community succession. Advisers must remain aware of the general advantages and disadvantages of this structure, particularly when compared to the IPS.

Guarantees do not provide equity. This renders the structure unsuitable for larger successions where bank or other secured lending will be required.

Partnership

It is of course, open to the employees to form a partnership to purchase the assets and undertaking of the business, and to carry on the business as a partnership. Obviously, entering into a business as a partnership can be a risk for the partners as they are not protected by limited liability.

Each participant is jointly and severally liable for all the debts of the business. This is unlimited liability. In return a partnership is subject to less regulatory control and it is strongly recommended that a formal written partnership agreement is put in place dealing, not least with issues such as capital contribution, profit shares and the way losses are to be divided as well as a method of allowing individuals to exit the business.

Partnerships do not have equity, and a lender's security will generally be given personally by each partner against his or her individual assets. In general terms a partnership is not a suitable vehicle for a community succession as it is not a separate legal entity and therefore does not provide limited liability.

Legal Structures for Succession

The issues above relate to the more recent structure of the limited liability partnership, whereby in return for a greater degree of disclosure and regulation (though not the full impact of the companies legislation) the individual partners can enjoy limited liability, limited to the amount they actually put into the business.

Employee share ownership plan (ESOP)

A more sophisticated method of ensuring employee share ownership is to create an ESOP. This is the most complex of the structures that are available, but it can provide several tax advantages for the retiring owners, the company and the employees. An ESOP can be used in conjunction with a company limited by shares and an IPS established as a co-operative. It cannot be used in a company limited by guarantee.

There are two principal elements to an ESOP – a profit sharing trust and an employee benefit trust. Either can operate independently without the other. They can also be used together. A profit sharing trust might be more appropriately called a share distribution trust since its purpose is to put shares into the hands of employees.

A profit sharing trust can simply be used to incentivise employees without connection to a succession strategy. A profit sharing trust is allocated profits from the company which uses the money to purchase shares. The company can agree with the employees that if the profits reach a certain amount then the employees can participate in them in this way. The shares can be purchased from existing shareholders or by the issue of new shares. The shares are allocated to employees in accordance with a formula agreed by the company with the Inland Revenue. The longer the shares are kept in the profit sharing trust, the greater the tax advantages are for the employees.

As part of a succession strategy a profit sharing trust might be introduced by retiring owners to incentivise employees before a sale as well as to provide a mechanism for the dilution of their shareholding. It might also be introduced by the employees' own Newco so that new employees of Newco can become shareholders. It can also be used together with an employee benefit trust.

An employee benefit trust is another trust whose purpose is to hold shares on behalf of employees and to facilitate their purchase or allocation to employees. Some tax incentives are available to retiring owners who sell (or gift) shares to an employees' benefit trust. It can therefore be used as part of a succession strategy in companies, particularly those with more than 10 employees. One of the differences between the employee benefit trust and the profit sharing trust is that the employee benefit trust can borrow monies to purchase shares from the retiring owners. The repayment of these monies can be more tax efficient for Newco than Newco having a direct loan.

An ESOP by its very nature is restricted to employee succession and cannot be used to finance a community buyout, unless of course all members of the community are to be employed in the succession business.

Co-operative

There is no particular co-operative legal structure. Co-operatives can be established as companies, IPSs and, in theory, limited liability partnerships. Co-operatives must follow the seven principles agreed by the International Co-operative Alliance, being democratically owned, member led businesses operating for the mutual benefit of the members. Within that framework co-operatives can take a wide variety of forms eg worker, community, consumer, farmer or housing co-operatives. In the case of employee buyouts a worker co-operative structure would be the most appropriate form. In the case of community buyouts a community co-operative structure would be the most appropriate.

There is no requirement for employee or community transfers of ownership to be to a co-operative. An employee buyout might be via the mechanism of an ESOP while a community buyout might be via a society for the benefit of the community.

Note

At the time of going to print (May 2003) the UK Government was carrying out reviews of various legal frameworks and consultation on new structures which may have a bearing on the information given and the opportunities available. These include the Company Law review, the review of Charity Law, developments in Industrial and Provident Society law and regulation and proposed new structures the Community Interest Company and the Charitable Incorporated Organisation. Co-operatives[UK] can provide updates on all these to those pursuing employee and community ownership options.

Taxation

A BRIEF GUIDE

The aim of this section is to provide the adviser with a brief guide to the main tax considerations faced by businesses and the individuals running them. The content of this section can only seek to highlight issues that may arise and in no way attempts to make definitive statements as to the law. The taxation rates and rules relate to the tax year 2002/03.

Under English law there are three main mediums by means of which a business may be carried on: sole trader, partnership and company. In addition there are the less common forms of ownership – IPSs, co-operative ownership and ESOPs.

The adviser must be aware that the interplay between the various forms of tax will be an important consideration, not least for the old owner who will want to limit his or her exposure to pay tax.

Some taxes are common to all types of business ownership. These are shown below. Other taxes are applied differently depending on the structure. These are shown overleaf.

Common taxes

Value added tax (VAT) and stamp duty are applied in a similar way to all businesses, whether they be sole traders, partnerships or companies.

One slight difference is that a group of related companies can form a tax group, in which case the companies in the group do not have to charge or account for VAT on taxable supplies passing between them. Certain inter-group transfers may also benefit from reliefs or exemptions to stamp duty.

Value added tax (VAT)

If a business makes taxable supplies it must charge VAT on its supply of goods and services. Where the value of taxable supplies does not exceed the current threshold level of £54,000 per annum, the business need not (but may) register for VAT and accordingly need not charge VAT on the supply of goods or services. VAT will still be paid on supplies to the business. Not only is the business responsible for charging VAT to customers, but it must also account for the VAT charged to Customs and Excise. However, it may deduct the amount of VAT that it has paid to suppliers from this figure.

The rates of VAT payable will depend upon the nature of the supplies that are being made by the business. Some supplies are zero rated or exempt. There is no need to charge VAT on these supplies (or in the case of zero rated supplies the correct VAT charge is at nil% rather than the current standard rate) but in the case of exempt supplies there will be restrictions on claiming back input VAT charged on supplies to the business. However, other goods and services are standard rated on which VAT must be charged, currently at 17.5%.

Stamp duty

Stamp duty is a tax on documents. It is not a tax on the transfer itself. Accordingly, if there is no document capable of being stamped, then there is no stamp duty payable. This has formed the backbone of much of the tax planning in this area.

There are different rates of tax payable. Some documents are exempt for the purposes of stamp duty. Others, such as those making gifts, attract a fixed duty of £5.

The sale or transfer of shares attracts stamp duty at a rate of 0.5% on the value of the consideration.

The duty payable on the transfer of other assets for example land will depend on the value of the consideration. It ranges from 1% to 4%.

Differences in taxation

See overleaf.

TAX ISSUES ON SUCCESSION

A succession will either involve the transfer of assets from the original owner, whether that owner was a sole trader, partnership, company or another structure, or the sale of shares in the existing incorporated business of the original owner, to the initiators. The adviser must be familiar with the different tax considerations that may apply.

Transfer of assets

The transfer of assets from one business to another will be a chargeable supply which means that VAT will have to be charged, in addition to the purchase price which the original owner will seek. It is likely that VAT will be charged at the standard rate (currently 17.5%).

However, where the initiators intend to use those assets to carry on the existing trade then it may be possible to obtain relief from the VAT charge under the provisions of Section 49 Value Added Tax Act and Article 5 of the Value Added Tax (Special Provisions) Order 1995 (as amended), such that the transfer is to be treated as a 'transfer as a going concern'. In such cases no VAT will be payable. It must be remembered that a break in trading may result in the loss of this relief and this may have to be factored in to the funding requirements.

Taxation

Differences in taxation between types of business ownership

Sole trader	Partnership	Company
Income tax Income tax is payable by the trader on all his or her trading income in the year. Currently different rates apply dependent upon the level of income. The rates are the same for the self employed and employees. The trader is allowed a personal allowance, and other payments may be taken to reduce actual income (eg permissible payments to a pension scheme). **National Insurance contributions (NIC)** Sole traders are regarded as self employed and accordingly the self employed rates of National Insurance are payable. These rates compare very favourably with the NIC payable by employees. **Capital gains tax (CGT)** Tax is payable on any gain (profit) realised from the disposal of a chargeable asset. An annual exemption is available to an individual to reduce the gain. Other reliefs, such as indexation (to take account of inflation) and taper relief (where credit is given for assets held over a period of time) may be available to reduce any gain. Taper relief for business assets is more generous than for non-business assets. Most assets used by the sole trader in the conduct of his or her trade, will qualify for business asset taper relief. Some reliefs, such as rollover and holdover relief defer the tax charge to a later date. In the case of such relief, the gains that would otherwise be charged to tax are invested in some new assets (which may be a new business). The charge to tax will become due, if at all, when that new asset is disposed of.	**Income tax, NIC and capital gains tax** The tax considerations are essentially as those faced by the sole trader. Each partner is deemed to own a share of the business and is taxed on his or her share as if s/he was a sole trader. There are sometimes issues as to whether or not an individual is a genuine partner or simply a senior employee who is 'masqueraded' as a partner. The income tax and NIC treatment for employees and partners differs.	**Corporation tax** A company does not pay income tax or CGT. Instead it pays corporation tax on all its profits in the year, which include both income and capital gains. The rate of corporation tax currently depends on the size of the company and varies between 0% and 30%. Indexation relief for capital gains is still available for companies after April 1998. Transfers of assets between companies in the same (tax) group do not give rise to a capital gain, but care must be taken should the receiving company subsequently leave the tax group.
Inheritance tax (IHT) On death, the sole trader (or rather his or her personal representatives) must pay inheritance tax on the value of the estate including the business. As the tax falls on the estate of the deceased, the logical solution to the problem is for the individual to reduce his or her estate by giving away assets. A gift of an asset, other than to a discretionary trust, is a potentially exempt transfer for IHT purposes. In over simplified terms, this means that providing the giftor survives for seven years after the date of the gift, then the entire gift will escape IHT. In addition some small annual gifts are excluded altogether from the IHT regime. Business and agricultural property reliefs are available to reduce the IHT bill, potentially to zero. No IHT is charged on a death transfer to a spouse, or to charity.	**Inheritance tax** On death, partnership property may pass to family, not necessarily to the other partners and this point should be specifically dealt with by all partners. Business property relief may be available to reduce the value of the estate.	**Inheritance tax** Companies do not pay IHT.

Taxation

Of course VAT charges to the business can be recovered from the VAT that the business charges on its taxable supplies, so that in the long run if VAT is payable it would be recovered. Essentially, therefore, payment of VAT becomes a timing issue. The need to pay VAT in addition to the purchase price can present a substantial problem to the initiators who will need to find some way of financing the payment until it can be recovered in the normal course of the business.

Stamp duty may also be payable by the initiators depending upon how the purchase price was apportioned between the different assets that made up the transfer. Where the assets can be transfered by delivery, for example physical assets such as equipment and machinery, no stamp duty need be payable. Title (or ownership) to tangible assets such as land and buildings as well as intangible assets such as goodwill and intellectual property (Trade Marks, copyrights etc) will pass through written documents and stamp duty is payable. The level of stamp duty depends upon the value transferred. Under £60,000 will be assessed at nil% duty, but must still be produced and charged a basic, produced stamp fee (currently £5 flat rate). Over £60,000 and the duty increases from 1% to 4% of value transferred.

In the hands of the original owner receipt of the purchase price is likely to be charged to capital gains tax, or corporation tax if the original owner's is an incorporated business. It will depend upon the original owners' individual circumstances what reliefs and allowances may apply to reduce any charge to tax.

Where the original owner was an incorporated business there is a complication for the individuals involved in that business. It is the business or company itself that receives the purchase price. The company will therefore have simply converted the tangible and intangible assets that went to comprise the business activities into cash. The company will then need to determine how best to distribute that cash to the individuals, usually by way of a dividend.

In so far as the initiators are concerned there will be a simple conversion from the cash asset to the tangible and intangible assets they have acquired through the transfer. The adviser should however be aware of the possibility of allowances which may be used to offset the value of assets in the accounts of the initiators and that the acquisition costs, and in particular the apportionment between the various assets, will have long-term implications for the initiators, including for example writing off the value of goodwill and intellectual property over time.

Transfer of shares

A transfer of shares requires that the original owner's business has, for at least some time prior to the succession, been carried on through an incorporated business. The adviser will be aware of the need to ensure that all shareholders in the existing business are party to any succession transfer. There will be legal formalities that will need to be complied with for the share transfers to be valid.

With a share transfer the assets comprising the business do not change hands. They remain in the ownership of the company conducting the business. The shares transfer represents a change in the owners of the company itself – a small but important distinction.

The purchase price will be apportioned between the various shareholders who agree to transfer their shares to the initiators, usually on the basis of a base price per share.

Again there will be a capital gain in the hands of the original owners of the shares and, depending upon their individual circumstances, a charge to capital gains tax. Of course the shares could have been held by another company so that the receipt in the hands of that company is potentially charged to corporation tax and the company concerned must separately deal with the most appropriate way of returning value to its shareholders, eg through a dividend.

The initiators will now have acquired shares in the existing business which otherwise remains unaltered. (This does not of course address the issue that new management may be required.)

As the only matter being transferred is the shares, the tax treatment is relatively straightforward. Stamp duty is charged on the value of the transfer at a rate of £0.50 duty per £100 transfer value (equivalent to half a percent, rounded up to the nearest £5 duty).

Learning and Participation

A NEW APPROACH

A successor democratic business will almost certainly require new approaches to:

- Skills development and learning
- Member empowerment and participation.

The Government has shown its enthusiasm for the concept of lifelong learning (a broader concept than the previously accepted definition of training) and this has begun to alert providers and learners to the potential of a much broader range of learning activities. The Strategy Unit (previously called the Performance and Innovation Unit) has set out proposals for a strategic framework for adult workforce development in consultation with a range of private, public and third sector partners.

Workforce development consists of activities which increase the knowledge, skills and abilities of individuals to play an effective part in the work place. Local Learning and Skills Councils (LSCs) will have drawn up a local workforce development plan and will review this periodically. There may be the opportunity to seek funding for skills development under these schemes from the local LSC.

Skills development and learning

In all succession situations - employee buyouts, community buyouts, externalisations or any of the situations described earlier in *Routes to Succession* - significant changes will potentially occur in peoples' roles. Democratic businesses need their employees and members to develop their existing skills and to learn new skills:

- The operational skills to deliver the product/service to a high quality consistently and competently
- Skills in business and management in order to take appropriate opportunities and develop the business further
- Skills required for the democratic operation of the successor business and the maximisation of the democratic advantage for business development and growth.

The successor business will be democratic and in order for employees, community members and other stakeholders to participate in the running of the new business, radical cultural change will often be necessary.

Employees and/or community members will be taking on Board roles and they will need to be equipped to work effectively as directors and to work alongside managers and paid staff. Many people will be taking on different roles including financial and project management, marketing and customer service and personnel.

Employee buyouts

In small employee buyouts the previous owner may have undertaken a wide range of tasks him or herself, eg bookkeeping, management accounting, sales, customer service and personnel matters. It will be important to understand fully the extent of this in order that the tasks can be distributed or another person can be employed to take on some of the activities. Traditional businesses often do not fully utilise the skills of their employees and in particular the skills which they have gained outside work.

The value of voluntary skills

In one employee buyout situation an employee was the voluntary treasurer of a social club with a similar turnover to the target business.

Community buyouts

In community buyouts there is the opportunity to draw on the talents of a wide range of people whose skills and expertise have perhaps not been recognised before. The succession process will begin to identify community members who are willing to come forward and take responsibility for certain tasks. Experience indicates that the ability to employ paid staff is often important to the success of the new business. Community members may be happy to take on the role of Board member but may feel reluctant to take on the delivery of the service in full.

Community buyouts often attract highly motivated staff. The management of a community enterprise requires people to have or learn a variety of skills – these include business management and the ability to work in partnership with members of the community.

Externalisations

Skills issues will also be critical for both staff and managers to the viability of an externalisation. Some management tasks may well have been undertaken outside the group or division being externalised. In the case of a large externalisation, they should be addressed at a relatively early stage so that all employees understand the cultural change that will be necessary in order to survive in a 'stand alone' situation. Skill programmes and learning situations give staff an opportunity to engage with their potential new situation

Learning and Participation

and are a good vehicle to build identity, group cohesion and to gain acceptance for changes to working practices.

Member empowerment and participation

The old adage 'information is power' holds true in a democratic succession situation. If the process outlined has been followed, the succession team and the wider stakeholder group (employee or community members) will have been enmeshed in a participative exercise which has encouraged collaboration, built confidences, begun to clarify responsibilities and most of all ensured that the group feel that they have ownership. If this process has worked well, it should not be difficult to develop appropriate management structures and style.

Employee buyouts

In a small employee buyout it may be that all employees are directors. In larger succession situations there may be a management team (some or all of whom are on the Board) together with non-executive directors and worker directors. Although the worker directors may have been part of the succession team and will therefore have been subjected to many and varied learning situations, they may need support to deal with potential conflict of interest situations so that they can balance their responsibilities as directors of the new business with their responsibilities to their co-workers.

During the succession process and when the new business commences trading, there will be a need to develop confidences in the staff so that they can contribute effectively. This might include encouraging the development of staff teams and promoting delegated and inclusive management styles. In the past much information (finance, contracts, sales, etc) will probably not have been shared with employees. The new democratic business will want to turn that on its head. As well as general meetings in which all employee members will be involved, case study businesses use regular meetings in the canteen and bulletin boards as communication tools.

Externalisations

In externalisation situations the involvement and participation by members and employees is vital to long term success (this is particularly true in large externalisations). Increased involvement and participation has the potential to significantly improve service quality and job satisfaction. It is a key to success for the new business and is likely to be an important strand in the succession process.

Community buyouts

A community buyout will need to be responsive to the members of the local community and build on the enthusiasm and commitment generated throughout the succession process. The founding Board will need to ensure that it is representative and develops the skills to manage the new business. There may well be a requirement to learn management and personnel skills if paid staff are in place. In addition members can be informed and consulted through the use of newsletters, general meetings and promotional events. It will be important to identify potential new and replacement Board members from amongst the membership.

Succession Checklist

A ROUGH GUIDE

The succession checklist on the following pages is intended as a rough guide to the tasks that will probably need to be undertaken on most business successions, whether they be employee, community or other stakeholder buyouts. The succession stages are outlined under the following column headings.

Time guide

An indication of a possible time scale is given – but of course this will be subject to enormous variation according to circumstances. It is wise to keep looking ahead if working through the list because in many cases work can be started on a prolonged task at an earlier time and progressed alongside other tasks, rather than waiting for its 'logical' timing.

Task

It needs to be borne in mind that not all work can be broken down into discrete tasks. Negotiating with the old business owner/managers, for instance, will be a process that develops its own logic and timetable which will run alongside other tasks. Another such area – and just as important in its own way – is keeping stakeholders informed (see box).

People/method

The work will bring together a number of key groups including

- A business adviser or development worker
- The old business owner/managers (and possibly their advisers such as accountants, solicitors, etc)
- The prospective new business owner/managers (who may also need their own solicitor, accountant, etc)
- A succession team which will manage the succession process
- Perhaps a wider stakeholder group – for instance the local community in the case of a community buyout
- Other interested parties, such as the business's suppliers or contractors

Key issues

Under this heading will be found notes on what to look out for at each stage and how to handle the most important issues that could put 'a spanner in the works'.

Keeping people informed

It is very important to keep stakeholders well informed throughout the buyout process. At least some of the following means should be employed to this end

- a regular newsletter, which can be a simple A4 sheet, outlining the work completed by the succession team and its advisers and any other developments each month
- regular stakeholder meetings, which should include arrangements to review and formulate basic strategy
- questionnaires on crucial issues
- open training courses and seminars – even where these are primarily for the future directors and managers, they should be open to all interested stakeholders
- 'surgeries', when members of the succession team are available at a regular time and place to answer individual questions and concerns
- social events, such as regular times at a local pub, to allow informal contact and discussion and relieve any tensions (take this idea seriously – it really works).

Succession Checklist

Time	Task	People/method	Key issues
Week 1	On first hearing about the possible succession situation, look for case studies or other examples of similar successions.	Business adviser/ development worker	A success story people can identify with is the best way to inspire confidence in the early stages. A good case study can also be used to work out business planning issues and as an accessible presentation later.
Week 2	Explore succession ideas with initiators, and perhaps other key stakeholders – make sure the old business owner/managers are informed	Meeting(s) by invitation	Find out what people really want – and expose any conflicting agendas.
Week 3	Hold 'stakeholder meeting' and form 'succession team' to oversee succession process. *Regular succession team meetings will be the most important planning and control tool in the succession process.*	Stakeholder meeting	The succession team must have legitimacy, so even if it's a foregone conclusion that any wider stakeholder group will endorse its members, it is best to formalise this in an open and democratic meeting. The team should be big enough to be representative but small enough to be able to meet and act quickly and efficiently. About five is a good number in most situations, but this can be extended if it is felt necessary to represent natural divisions in the stakeholders.
Week 3	Look for additional advice and finance. The succession process itself will cost money – in addition to, and in advance of any buyout price to acquire the old business.	Business adviser and succession team	Many advisers, such as the staff of local enterprise agencies, can meet some costs (including their own payment) by raising funds from local authorities or other agencies such as Business Link or the Regional Development Agency (if this buyout is of regional significance). A 'sinking fund' of subscriptions for stakeholders may be an option – possibly repayable with a share in the successor business.
Week 3	Sketch business proposition and financial case.	Business adviser, but based on information supplied by the succession team. It is advisable to make one member of the team responsible for co-ordinating financial planning.	With most successions a business has been operating at least at break-even, so it might seem that the financial case is cut-and-dried. The key issues are: • whether the business can carry on at least as well as before and meet the extra finance cost of any buyout price; • to unpick the costs which the new business will no longer bear and assess the extra costs which the new business will incur.

Succession Checklist

Time	Task	People/method	Key issues
Week 4	Make a list of likely difficult-to-resolve issues so that they can be given adequate time and attention in the succession process.	Business adviser/ succession team	This will include a number of 'technical' legal/financial issues that regularly delay successions, such as • transfer of contracts issues (eg suppliers not extending credit to the 'unproven' successor business; landlord not approving lease assignment) • staff terms and conditions (TUPE, pensions, etc) • unforeseen insurance requirements or increased costs.
Week 4	Presentation of business proposition and basic financial case back to succession team and perhaps wider stakeholder group.	Business adviser/ succession team/ stakeholder meeting	
Week 4	Open formal 'in principle' negotiations with old business owner/managers.	Succession team/ business adviser	These will progress as required throughout the succession process.
Week 4	Research Market 1 Find desk research sources of market intelligence and start researching detail of market size, trends, etc 2 Define target markets by type, size, etc and list main potential customer groups and how they can be reached 3 Identify and research competition – obtain their promotional material 4 Consider a questionnaire survey of customer requirements, and a programme of visits to important customers. (In any case, inform customers of plans to date and assure them that the business is continuing) 5 Hold 'brainstorming' session on new market opportunities	The information collection should be led by a delegated member of succession team but supported by other volunteers and by the adviser.	Although the old business should have established markets it is essential that the succession is used to look again at market trends and new opportunities – and to review pricing and other policies which may have become out-dated.

Succession Checklist

Time	Task	People/method	Key issues
Week 5	Financial Planning 1 1 Review likely demand in the light of market research 2 Estimate income from above and undertake initial scoping of direct and overhead costs 3 Start work on planning financial administration systems (what needs to be done, when, by whom and what equipment will be needed).	This can be done by the succession team, but again co-ordinated by one member and assisted by the business adviser.	An initial idea of viability will have been gained during the scoping of the business and financial case (week 3). This now needs to be built upon and will continue as a vital thread throughout the succession process. In a succession situation there will almost always be costs which the new business will lose (perhaps over time) such as the owner's salary, dividends, etc but there will also be a requirement to take on new cost – replacing the tasks undertaken by the now absent former owner. In an externalisation situation the public authority will have undertaken 'management' tasks on behalf of the group/division and these will need unpicking.
Week 5	Marketing Planning 1 Organise workshop session with marketing trainer to identify basic marketing strategy and what promotional materials are needed.	Business adviser/ succession team	
Week 6	Marketing Planning 2 1. Finalise any changes to name and 'mission statement'. 2. If necessary draft copy and commission corporate image and promotional materials. 3. Start planning re-launch events.	Just as one member of the succession team should be responsible for co-ordinating financial planning, another should co-ordinate marketing planning. The whole team should discuss and approved key items.	It is important to finalise any name or other fundamental change as early as possible so that there is enough time to commission a 'corporate image' from graphic designers. A modest re-launch, requiring little planning, is advisable – perhaps a reception with invited representatives from the local authority, business organisations and friends. This can be followed up with a higher profile event after running for a few months.
Week 6	Organisational Planning 1 1. Review premises and equipment in the light of changes to market and financial orientation – work out any necessary refurbishment and list new equipment and other requirements 2. Sketch new organisational and management structure.	This should be done by the succession team in close consultation with the adviser.	The management structure will be based on a number of considerations, but is fundamentally a compromise between what management roles are needed and what mix of skills are available. It is of course always possible to simply recruit an experienced general manager.

Succession Checklist

Time	Task	People/method	Key issues
Week 7	Prepare legal/financial structure The key documents for registering the company (the Memorandum and Articles of Association) or other structure should be designed at this stage.	Business adviser	This involves planning how the successor business will be funded – if it is a community buyout and can be grant-funded it will need something like a non-profit-making 'guarantee company' structure; if it is to raise equity or commercial borrowing it will need something like a share company structure.
Week 8	Hold exploratory talks with potential funders/financiers	Business adviser/ succession team	
Week 8	Presentation of plans to date to all stakeholders.	Business adviser/ succession team/ stakeholder meeting	The most important aspects of the business planning should be reported back to meetings of all stakeholders at regular intervals (at least monthly). At this stage especially it is important to present the succession team's conclusions as to the appropriate organisational, management and staffing structure for approval.
Week 9	Select first directors and register company or other structure.	Succession team/ business adviser	It is possible to elect the directors at this meeting. However, if the succession team has continued to have the full confidence of the stakeholders, it is probably best for them (or some of them) simply to become the first directors. Continuity of management between planning and start-up phases is crucial and if stakeholders become unhappy with any of the directors they can always be removed at a later date.
Week 10	Personnel Planning 1 Work out management and administration job descriptions, including salaries, and prepare to advertise if necessary	This should be done by the succession team in close consultation with the business adviser.	
Week 10	Financial Planning 2 1 Work out direct and overhead costs 2 Work out rough buyout costs 3 Build financial model	Business adviser/ succession team	
Week 11	Finalise agreement with the old business owner/managers – at least on any buyout price.	Succession team/ business adviser If necessary instruct solicitors to draw up offer or transfer agreement.	

Succession Checklist

Time	Task	People/method	Key issues
Week 12	Personnel Planning 2 1 Organise training workshop for directors on their responsibilities and general company administration 2 Ask all key people to write a short note of qualifications and experience for inclusion in the business plan etc 3 Design staff training and personal development arrangements 4 Design support and supervision arrangements.	Succession team/ business adviser	
Week 12	Financial Planning 3 1 Obtain any necessary tax clearances 2 Finalise business plan, apply for start-up funding, secure facilities, etc.	Business adviser/ succession team	
Week 13	Organisational Planning 2 1 Develop quality standards 2 Appoint an accountant (you may also need a solicitor) 3 Complete design of finance and administration systems 4 Organise training workshop (1 day) on finance and administration systems.	Business adviser/ succession team	
Weeks 15 to 18	The Home Straight 1 Finalise business plan and modelling 2 Final negotiations with funders and financiers 3 Final negotiation on and redrafting of legal agreements.		
Week 19	Completion 1 Signing of legal transfer agreements 2 Signing of bank and other facility agreements		
Week 20	Interview (if necessary) and appoint management and administration posts.	Succession team/ business adviser	

Case Studies

The following case studies have been selected because they are examples of buyouts in a rural context. For more examples of co-operative successions and buyouts investigate the *Further Reading and Resources* section at the end of this book or contact Co-operatives[UK].

Community buyout

Employee buyout

Multi-stakeholder buyout resulting from an externalisation

Divestment from a larger business

Retirement of an owner

Community Buyout

KIELDER

Fact file

Name of enterprise:	Kielder Limited and Kielder Community Enterprises Limited
Location:	Kielder, Northumberland
Legal structure:	Charitable company limited by guarantee and share capital subsidiary company
Type of activity:	Rural regeneration encompassing charitable activities and community trading enterprises
Date established:	March 2001
Type of members:	Residents of the area of benefit and interested organisations

Key features

- A community in decline for over a decade following the withdrawal of the main employer in the area
- Wide diversity of community needs required to be met through a complete lack of local business enterprise
- Limitations on business forms requiring the use of a separate charity and trading subsidiary to meet the community objectives and legal and financial structure.
- Local membership

History

Kielder is a remote village in Northumberland in the North Tyne Valley near the Scottish Borders. The community was created after the Second World War to serve the huge border forests. The village of Kielder is surrounded by the country's largest forest and next to Britain's biggest man made lake.

Intended to be three times its actual size (1991 census confirmed population of 233) the community went into decline when the area's largest employer, the Forestry Commission, made many in the area redundant over the past decade or so. Building the dam between 1976 and 1982 provided fresh public sector job opportunities that helped mask the impact of the forestry changes (that had moved substantially away from labour intensive timber harvesting methods), but has itself created a dependency on the two major local employers.

The community has lacked any tradition in the vein of mining and steel communities and often found its demands inappropriately expressed resulting in the local employers being unable to respond. Lacking both culture and traditions the community has needed to find ways of co-operating within itself as well as with the landowners.

Kielder has continued to suffer a declining population caused by remoteness, lack of accessibility, lack of entrepreneurship, lack of appropriate and affordable housing, narrow economic base and a lack of employment opportunities. Retaining Kielder's youth was even more difficult when the state owned Forestry Commission put many of the village's houses up for sale and advertised them in London at low prices. This built on the loss of one third of the housing stock when the dam was completed and the surrounding lands flooded.

Local people prepared a business plan involving training for business set up and employment, provision of workspace, setting up a bus service, reopening the petrol station and opening a youth hostel. They were also concerned to protect and conserve the area, including Kielder Castle. With legal advice from Wrigleys Solicitors in Leeds they formed a company, later registered as a charity, with regeneration objectives.

Structure and governance

The main company is limited by guarantee and is a registered charity managed by a board of 7 trustees, all of whom are members and therefore live locally. They are assisted by two non-executives from nearby business and government. The maximum number of trustees is 12. To ensure good governance and in line with Charity Commission guidelines, the trustees must retire (but may be re-elected) after three years.

Membership of Kielder Limited is open to all who reside in the Kielder area together with organisations which share a common interest.

The charity is regulated by the Charity Commission.

Community Buyout

Separately there exists a wholly owned trading company limited by shares undertaking non-core charitable and trading activities.

Current activities and business strategy

Some elements of the business plan of Kielder Limited were not charitable, for example, encouraging tourism, and other trading. These activities are now under the trading subsidiary Kielder Community Enterprises Limited, which runs the petrol station.

The trading company purchased a derelict garage site in the village and now sells petrol and diesel to residents, businesses and visitors. The village's very remoteness gives it a competitive advantage, and the filling station is also able to draw on the numerous visitors (approximately 300,000 a year) to the local tourist attractions of the forest and lake.

Another problem as a rural community was under employment rather than unemployment. Of course it is only the relief of unemployment which qualifies as a charitable object, and therefore any relief of under-employment has to be done through the trading subsidiary.

The charity has received grants from Tynedale Council to help people start up businesses and to provide facilities such as playgroups.

The main exercise of the charity and trading subsidiary has been to get new industry into the village. The local school has been turned into a multi-function community centre, library, doctors' surgery and youth and toddlers club. The company is also in the process of refurbishing existing business premises on the garage site in order to bring on line an additional income stream from rentals from light engineering, retail and garaging activities.

In 2001 Kielder received £500,000 grant funding from the Government Single Regeneration Budget for a four year programme to rebuild the community.

The charity is also working closely with local government to establish new community transport routes for residents' and visitors' benefit. Plans include obtaining an eight-seater vehicle to double up as a licensed taxi, supported by grants through Tynedale Rural Transport Partnerships and subsidies from Northumberland County and Tynedale District Council. The charity has recently made a loan to the trading subsidiary (rather than investing in its shares) for start-up and development purposes of £25,000.

Member benefits

There is a community aspect to the membership: only those registered to vote in the Parish of Kielder have membership voting rights (although businesses in the area supporting the objects are also able to become members of the company).

As Kielder Limited is a charitable company limited by guarantee, members do not receive dividends, nor do they receive any benefits except as beneficiaries. As membership is restricted to the Parish of Kielder, however, members feel a strong sense of community, see the results of regeneration projects and experience a new culture of enterprise.

Community Buyout

CWMNI GWYNT TEG CYF

Fact file

Name of enterprise:	Cwmni Gwynt Teg Cyf
Location:	Moel Maelogen, Conwy
Legal structure:	Company limited by shares
Type of activity:	Wind farm / renewable energy project
Date established:	April 1998
Type of members:	Community owned
Number of members:	3
Latest annual turnover:	in first year of production

Key features

- A community enterprise in an industry dominated by large corporate utilities and foreign investment
- Substantial diversification from traditional activities in an isolated rural community
- Overcoming substantial hurdles in credibility, development and funding involving a substantial learning curve for the members involved
- Project supported by Wales Co-op Centre, Conwy Enterprise Agency and Conwy Economic Development and Regeneration Partnership. Advice provided from Wrigleys Solicitors

History

Moel Maelogen is an isolated farming community in North West Wales in the shadow of Snowdonia. There are few local employment options but a tradition of hill farming that for families in the local community stretches back through many generations. The geography does not lend itself to viable alternatives to the traditional farming activities such as crops or larger livestock and the land remains subject to restrictions following the Chernobyl Nuclear disaster of 1986 and recent foot and mouth outbreaks. One natural crop remains available in almost endless supply – wind!

The Government has confirmed a commitment to electricity generation from renewable sources amounting to 10% of consumption by the year 2010. Notwithstanding this great hurdles are faced by projects of this kind, particularly in obtaining the requisite planning permissions in the face of local oppositions.

The project consists of three wind turbines and associated infrastructure including connection to the national electricity grid establishing an electricity substation and access for construction. Capital costs of the project amount to a sum in the region of £1.5million, which, together with development costs including site evaluation surveys etc, brings the total finance required to approximately £2.5million.

With no practical experience of either developing or running a wind farm, the families faced a substantial hurdle in persuading financial backers that the project was viable and that they had the requisite skills to carry it through.

To overcome the issue of credibility the families sought from an early stage in the project, a business partner with experience in developing wind farm projects. This created an immediate problem for the families in that the only organisations with such experience that responded to their approaches were large national utilities giving rise to concern that the project would lose its community basis or control.

Structure and governance

Although a community based co-operative project it was decided to proceed by way of a company limited by shares as that structure was more familiar to the various organisations from which funding was sought. The three families most intimately involved with the project have retained one share each maintaining their equal status. There are three directors again appointed from each of the families.

The Memorandum and Articles of Association do not

Community Buyout

contain any restrictions on the standard provisions, therefore there is no inbuilt protection for any one or other of the families. This structure was considered desirable in order to make the project most attractive to potential funders in view of the substantial capital costs involved in the project.

Current activities and business strategy

The families have been able to enlist the invaluable support and assistance of EnergieKontor, a German wind development company, which is co-ordinating the technical part of the project and is providing bridging finance to fill the gaps in construction and energisation. EnergieKontor as evidence of their belief in the viability of the project will fund, own and operate one of the three turbines forming the project.

With the project management experience of EnergieKontor the project has been able to overcome the substantial issue of credibility. This has enabled the families to obtain the final element of funding.

Cwmni Gwynt Teg Cyf is the first private company in North Wales to secure Objective 1 funding, approximately £360,000 from the European Regional Development Fund. Further funding of £1.7million has been raised from Triodos Bank N.V., an ethical investment bank based in Holland with offices in Bristol. This bank funding has as a necessity been secured against the capital assets of the project (comprising both the wind turbines and the land on which they are sited). Triodos Bank N.V. has extensive experience in financing renewable energy projects and in addition to the provision of funds was able to provide practical advice and assistance to the families on contractual issues relating to the civil and electrical engineering build and design aspects as well as on operation and maintenance of the completed project. The families controlling the project have themselves invested almost £500,000 with assistance from the Environment Loan Scheme run by Barclays Bank.

The learning curve for the three farming families has been immense but they are now building on that experience with plans to potentially buy out the third turbine, owned and operated by EnergieKontor, to restore the wind farm to its original vision as a local community project, and with a possible development of a second wholly owned community project in a nearby location.

The construction of the wind farm is now almost complete. Civil and electrical works have been tendered to local businesses and the turbine towers, constructed in Wales, have already been installed.

The farmers have been able to generate tremendous and sustained support from the local people and business community, which has helped them at all stages through the development of this project.

Energisation is scheduled for March 2003 and it is anticipated when fully operational the site will have an output equivalent to the energy consumption requirements of 2,500 homes.

Member benefits

The project has been developed from within an isolated rural community faced with severe financial hardship and few if any alternative local employment or business options.

The project's success will go some way to providing the families involved with both immediate and long term solutions to the problems of income generation and business and community continuity through diversification. This project demonstrates not only the commitment of the families involved but also demonstrates the availability of support from the wider business community.

All involved have benefited greatly from their involvement and their experiences are of value for the development of further projects and in providing assistance to other farming groups and communities.

The focus on a community led project distinguishes the Moel Maelogen Wind Farm from the majority of wind farm and other renewable energy projects in England and Wales, which see ownership and control in the hands of non-local organisations from national electricity companies to foreign investment funds.

Community Buyout

HESKET NEWMARKET BREWERY

Fact file

Name of enterprise:	Hesket Newmarket Brewery Limited
Location:	Hesket Newmarket, near Wigton, Cumbria
Legal structure:	Industrial and Provident Society community co-operative
Type of activity:	Brewery
Date established	December 1999
Type of members:	Local villagers and people with a connection to the village
Number of members:	66
Latest annual turnover:	£60,000

Key features

- Villagers and their supporters bought the brewery to maintain a key part of the local economy.
- Each of the original 58 members invested £1,500 as shares to raise the capital to buy the business. Each member has an equal stake and one vote.
- The community co-operative structure of the business provides a means of bringing in additional expertise (eg marketing, sales, finance) to support the brewery manager's skills.
- There is a high degree of local support to the business. This was vital in helping the brewery get through the Foot and Mouth Disease epidemic.
- The success of the co-operative has helped to support other businesses in the village, notably the pub and an adjacent guesthouse.

History

Jim and Liz Fearnley, the owners of The Old Crown, decided to open a micro-brewery in buildings round the back of the pub. The brewery grew over the years, supplying many local pubs and employing two people. In 1998, the Fearnleys retired from the pub and in 1999 they also decided to retire from running the brewery.

By now the brewery was a key part of the village community. Besides brewing many people's favourite beer, it employed two people and its popularity with walkers and climbers boosted tourism in the village. Villagers and friends of the brewery decided to secure its future – by buying the brewery themselves as a co-operative.

A steering group of five was appointed to draw up more detailed proposals. These were accepted at a further members' meeting in October. The steering group began to cast round for people who could help them. This included Voluntary Action Cumbria, Cumbria County Council, Lancashire Co-operative Development Agency and a local firm of solicitors. Because the buyout was structured as a co-operative society with non-transferable shares, the provisions of the Finance Act 1985 did not apply. The steering group was therefore able to avoid the expense of producing a full offer document.

In the end 58 villagers and well-wishers (including the mountaineer, Sir Chris Bonnington) agreed to invest £1,500 each. The £87,500 raised was meant to cover the purchase price and initial working capital. In actually running the business, the members have found that more working capital would be helpful. On 17 December 1999, the brewery was sold to the co-operative.

The first year was very successful. However, in 2001 the Foot and Mouth Disease epidemic hit the business hard and a loss of £4,000 was recorded. Since then the brewery has made a strong recovery and expects to make a profit again in 2002.

Structure and governance

The brewery is a community co-operative with the members being local villagers plus well-wishers (many of whom use the village as a base for walking). It is registered as an IPS. Members buy shares in the co-operative to raise capital. In theory members could hold between £1 and £20,000 in shares, but the co-operative decided that every shareholder should buy £1,500 so that everyone had an equal stake in the

Community Buyout

business.

The members elect a committee of five who direct the operation of the brewery. The brewery employs a manager (who is not a member of the committee, although he attends to give advice) and one other member of staff. The members of the committee take a hands-on approach being involved in financial management, marketing and bids for grants. Other members do work voluntarily, for example one member does telesales for two mornings a week.

Within a small village, members find out about the affairs of the brewery by word of mouth. A newsletter is also produced to keep more far flung members of the co-operative informed. An AGM is held in November of each year.

Current activities and business strategy

The majority of the brewery's sales are direct to individual pubs in Cumbria and the North East. The furthest afield is Haydon Bridge. They also do some sales through Beercellar based in Sunderland.

The members are cautious as to how to expand the business. They believe that once it reaches a certain size it will require a significant change in the culture of the business, in particular more sales through distributors as opposed to direct sales. Current strategy is for steady growth. This was being achieved prior to Foot and Mouth Disease and is now back on track.

The beer is sold on reputation, not price, although the brewery's production level made it eligible for the duty reductions introduced in the 2001 budget (which has saved the brewery £11,000 per year). There are numerous small breweries in Cumbria, whose geography is conducive to their development, and Hesket Newmarket perceives no major threats.

The brewery is gradually investing to upgrade its plant and improve beer quality. The appointment of a new head brewer, Michael Parker previously employed by Bass, has helped in this. Investment is being met from new shareholders and a Rural Recovery Fund grant. The brewery is now in production four days a week.

The co-operative is considering diversification as a means of growth:

- Increasing the numbers of brewery tours and developing a visitors' centre
- Running short brewing courses
- Developing a new bottle conditioned beer.

However, for the moment, concentration is on recovering from the effects of the Foot and Mouth Disease crisis.

Member benefits

The members are highly committed to the co-operative either as local people or as supporters with a strong tie to the village. There is a level of informal member involvement which is often possible in a small community co-operative. While the researcher was on site, two members from the village came into the brewery.

It is clear that there is a strong sense of ownership of the co-operative in the village, although anecdotal evidence suggests that this sense of 'ownership' extends beyond members who own shares in the brewery.

If the co-operative makes a profit members receive a dividend on their shareholding. In 2000 this amounted to £25 (or the equivalent amount in beer). In 2001 the effects of Foot and Mouth Disease meant that there was no dividend.

Members of the co-operative (whether local villagers or supporters who use the village as a base for walking) benefit from the continued existence of the brewery linked to the Old Crown. It was the desire to see this continue that made people willing to invest in the project.

Community Buyout

SHILBOTTLE VILLAGE CO-OPERATIVE

Fact file

Name of enterprise:	Shilbottle Village Co-operative
Location:	Small village just off the A1 in mid-Northumberland
Legal structure:	Co-operative Society. Over half the village population are shareholder members, subscribing about £3,000 altogether. However, although originally a bona-fide co-operative with members allowed a dividend, as a result of funding requirements the constitution has had to be changed so that no individual can profit.
Type of activity:	Village general store, mainly food, with alcohol licence, newspapers and National Lottery tickets
Date established:	Community buyout of existing shop in autumn 2000
Type of members:	Community members
Latest annual turnover:	£300,000

Key features

- In 1999 the Shilbottle Village Forum saw that what was then the only village shop was in difficulty and approached the owner to explore a rescue
- The Shilbottle Village Co-operative was formed with a management committee of eight, none of whom had any substantial experience of running a shop
- Over half the village became shareholder members of the co-operative, raising about £3,000; this money provided a fund to cover the initial development costs
- The 'asking price' for the business was £150,000 plus stock; the business plan called for this money to be raised from a number of private and public funding sources and assumed that grant funding would be in place by March 2000 – but in fact funding turned out to be a bureaucratic minefield
- In the end the buyout was only successful because a benefactor was persuaded to buy the shop building and lease it to the co-operative
- There have also been a number of 'people problems' and perhaps a structural weakness in that the shop needs a multi-skilled business manager but can only pay about £15,000 for this position – at present the committee members do a lot of 'hands-on' management and other work voluntarily
- The shop now takes over £6,000 a week and employs five people (two full time, two for 30 hours and one for 10 hours a week) – all local people.

History

Since the committee formed to look at the shop rescue in August 1999 had little experience of running a shop, and no funds, the first task was to raise money for planning and development work. This was done by an initial share issue to villagers, which raised about £3,000.

The 'asking price' for the shop was £150,000 plus stock, which the business plan envisaged being raised from a number of private and public funding sources. However, funding the buyout turned out to be a bureaucratic minefield and disappointment followed disappointment. The committee received 'nods and winks' that funds were available, that approval was a formality, and was given 'expert' assistance to fill in application forms, but after months of waiting half the promised funds evaporated.

Meanwhile the trading position of the shop continued to deteriorate. To prevent it from closing the committee decided to temporarily lease the premises from the old owner. With a lot of voluntary effort they decorated and restocked the shop, and in the first months of trading weekly takings doubled from £3,000 to to £6,000.

At this stage the business was run by the committee, with three part time paid staff, and the following funds had been agreed:

- Over £25,000 from the Northern Rock Foundation (£15,250 for a manager's salary and £10,000 for building refurbishment)
- £6,000 from the Rural Development Programme for building refurbishment

Community Buyout

- Another £6,000 or so in grants from other sources, mainly for refurbishment and disabled access
- Soft loans – £5,000 from the Duke of Northumberland and £3,000 from Alnwick District Council.

Funding was in place to employ an experienced shop manager. However, in spite of careful recruitment this appointment didn't work out – indeed it only lasted four weeks. Meanwhile, raising enough money to purchase the building (and draw down agreed refurbishment grants) was proving impossible – until the committee approached the Duke of Northumberland. The Duke's company, Northumberland Estates, completed purchase of the shop building and leased it to the co-operative. Finally the refurbishment of the shop could go ahead – and this became more of a priority as a result of an environmental health inspection. The necessary refurbishments were extensive, costing over £25,000 altogether.

Structure and governance

Consultation and participation involving the whole village have been hallmarks of this venture. When the possibility of 'rescuing' the shop arose, the village forum carried out a survey – interviewing people at the Post Office – which reached over half of the 650 households in the parish, and was overwhelmingly positive. The forum then held an open meeting which endorsed the project and elected the committee to organise and run it. When the co-operative was constituted and the shares issued – again involving over half the village as shareholders – the committee resigned en-bloc to be formally re-elected by the new shareholder members.

A shop manager is needed by the committee to take over the day to day running of the shop and the financial and staff management. However, after the appointment of the first manager didn't work out it has proven impossible to find a manager with the full range of skills required on the pay scale affordable. The committee members therefore find they are still very much hands-on – it is estimated that they give a total of 70 staff-hours per week. They fear this reliance on volunteers may not be sustainable.

Current activities and business strategy

Shilbottle now has a modern village store, with a floor area of about 80 square metres, supplying a wide range of goods at competitive prices. Following the refurbishments trade has increased to a weekly average of £6,300. The trading policy is to keep prices as low a level as possible consistent with maintaining a satisfactory cashflow and a small emergency fund.

The present trading pattern indicates that the business is sustainable but the committee continues to make efforts to reduce costs. An example of this is accountancy which presently costs £146 per month – some management committee members are now engaged in an accountancy course with a view to reducing this cost.

The real problems concerned start-up funding and staffing. Without the intervention of the Duke of Northumberland the buyout would have collapsed – though in fact it has proved an excellent investment for the Duke, because the grant-aided shop refurbishments and increases in property values have probably doubled the building's value.

Another unforeseen problem (probably related to the funding delays) is that during the buyout period another shop actually started up in the village, and the competitive element does not always sit easily with the democratic openness of the co-operative.

On the staff side, it is seen as essential that a manager is employed who has business acumen, financial and people management skills, but small shops simply cannot afford someone with expertise in all these areas, so a continuing reliance on volunteer effort is likely.

Among the key success factors have been people who are willing to drive the project forward, who do not give up because something hurtful is said about them, and who are willing to 'get their hands dirty'. They need determination, energy, and the imagination to look for new ways forward. Most of all they need to be good communicators; to make others feel involved and included so that they keep up momentum. Although there are tensions at times within the committee – some give the impression that 'hands on' work is beneath them, and some feel that strong personalities tend to take over or cannot delegate – they work through such problems and recognise their own and others' strengths and weaknesses.

Member benefits

Members benefit from their shareholding status; although member dividends had to be dropped they still enjoy a sense of ownership and a say in what happens to their village shop. The shop refurbishment, external hard landscaping and so on has improved both the shopping facilities and the physical environment of the village.

The shop has also enabled many people to make new contacts and nurture a sense of community. The local vicar, for instance, is actively involved in the co-operative and feels it is consistent with his role to help bring the community together – and it has brought him into contact with people he would not otherwise have met. Many members have also learnt a lot – although the learning curve has been a bit too steep at times!

Employee Buyout

UBH INTERNATIONAL LTD

Fact file

Name of enterprise	UBH International Limited
Location:	Burscough, Lancashire
Legal structure:	Company limited by shares
Type of activity:	Liquid and gas tank container manufacturer
Date established:	August 1999
Type of members:	Employee owned
Number of members:	120 employees
Latest annual turnover:	£8million

Key features

- World class company put into receivership in February 1998 putting 300 people out of work
- Strong support from the trade unions for a buyout – GMB and AEEU combined with a steering committee made up from different divisions of the business
- 90 employees agreed to invest £5,000 in the new venture (either their own money or borrowed). A free-phone number at the Co-operative Bank was set up to enable employees to obtain the funds
- Advice team from Lancashire CDA, Malcolm Lynch (Wrigleys) solicitor, Casson Beckman corporate finance
- Determination of the steering committee to fight on in the face of fierce competition from other bidders, antagonism from the receiver and a long period between ceasing to and recommencing trade.

History

The old Universal Bulk Handling (UBH) was a company which had built a world class reputation for manufacturing lightweight tank containers. Although there were larger producers, UBH had gained a reputation for design and engineering quality. It was put into receivership in February 1999 and 300 people lost their jobs in an area of Lancashire that could ill afford it. Burscough is a small town located in a mainly agricultural area.

The two key trade unions involved (GMB and AEEU) were keen not to see potential competitors strip the assets and leave no employment in the area. Following an initial feasibility study supported by Lancashire CDA and Moore and Smalley (Accountants), a bid of £1.1million was put to the receiver. A significantly larger bid from an Irish competitor was accepted by the receiver in March 1999.

The employee-led steering group was not convinced about the seriousness or the viability of the opposition and continued to prepare. In mid-April, the competition withdrew and the management/employees sought exclusivity. This was not granted. Regular mass meetings with the potential workforce were held to feedback information and gain commitment for actions taken by the steering group.

Corporate financiers (Casson Beckman) and Malcolm Lynch, solicitor, were engaged to advise the employees in the submission of the revised bid, the raising of the finance package, commercial and constitutional aspects of the buyout. Although funds were sourced from the County and District Councils and LAWTEC for the initial work, most of the corporate finance and legal work was undertaken at risk.

The buyout was completed on 26 July 1999 some five months after the company had gone into receivership.

Structure and governance

The new company is managed by a board comprising executive and non-executive directors the majority of whom were involved in the buyout process. Three employees also sit as directors.

The fact that 90 former employees were willing to invest £5,000 each in the company proved to be a very strong factor in attracting external investment. It was thought at one point that venture capital would be required (thereby diluting the employee shareholding) but the reward required was felt to be too great. In the end sufficient

Employee Buyout

debt capital was raised to effect the buyout. Over £2million was raised through:

- Employee equity
- ING (Dutch leasing company) – asset finance
- Riggs (American bank)– working capital finance
- Regional Selective Assistance – grant

A remuneration committee has been established to set the terms and conditions of employment in negotiation with the trade unions. It also sets company policy on benefits. The employee directors have a seat on this committee.

An employee benefit trust (EBT) has been established:

- To create an internal market for the purpose of buying and selling shares in the company and
- To provide a mechanism for consultation between employees and the directors of the company.

Provisions regarding this have been inserted in the Articles of Association of the company and also in the trust deed governing the employee benefit trust. The trustees of the EBT are representatives of the trade unions active in UBHI, an employee representing administrative staff and an employee who is part of the management structure.

Current activities and business strategy

The original company was a manufacturer of specialist road tankers and began to diversify from the early 1970s onwards using the skills of its engineers and workforce to develop a range of inter-modal tank containers for the carriage of bulk liquids. The old UBH became one of the world's leading suppliers of tank containers (in 1998 it had 15% of the world market).

Following the management and employee buyout in August 1999, UBHI began to refocus its activities moving away from standard tank containers to concentrate on building the more specialised custom-built units increasingly demanded by end users.

Despite an unprecedented slump in the world market for tank containers, UBHI has re-invented itself, carving out a new position in this fiercely competitive international marketplace. Soon after the relaunch of the company UBHI manufactured the world's lightest full-frame tank, a 31,000 litre swap tank for a German tank container operator weighing in at 3,250 kg (against a target weight of 3,400 kg). UBHI's swap tanks permit the carriage of up to 35,000 litres while ISO tanks are used in deep seas. Products carried range from orange juice to Scotch whisky for the food and beverage industries, and from latex to sulphuric acid in the sphere of bulk chemicals.

The slump and strong competition have affected UBHI particularly in cashflow. A substantial refinancing was completed by UBHI in September this year representing an investment of over £1 million together with further funding facilities which were made available to the Company by Baxi Partnership Limited Trust established in 1983 and confirmed by Act of Parliament in 2000 with the specific purpose of promoting business success in employee ownership and professional management within a partnership culture. Baxi has acquired a 50% shareholding in UBHI enabling the employees of UBHI to become beneficiaries of Baxi itself thereby adding further benefit and protection.

Member benefits

The 95 founder members were able to save and maintain their own jobs. Since then 25 new jobs have been created. The manufacture of tanks is highly skilled engineering work and there are few other employers offering comparable work in the area.

The business is 100% employee owned. The employees elect three members of the Board and mechanisms have been set up to ensure genuine employee involvement and sharing of information. There is therefore a sense of ownership by the employees of their place of work. UBH is committed to providing training to its employees.

The employees, as the owners of the business, are entitled to a share of any profits made by the business.

Employee Buyout

NORTH EAST DIRECT ACCESS

Fact file

Name of enterprise:	North East Direct Access
Location:	Just off the A167 between Chester le Street and Durham
Legal structure:	Worker co-operative company limited by guarantee
Type of activity:	A hostel providing bed and board for 'gentlemen of the road'. The complex is composed of bungalows that have single rooms with communal living and bathroom areas, and new flats (with more planned)
Date established:	Employee takeover of existing hostel in February 1992
Type of members:	Employee owned
Latest annual turnover:	£400,000

Key features

- North East Direct Access provides accommodation, meals and other services for men who would otherwise be 'lost on the streets' – men with mental health, alcohol or drug problems, or who just have no home or family.
- It provides a dry 'safe haven' with a 'family' atmosphere, where people are helped to start afresh, form friendships, and move on to independent living (or for a small group who will not leave, to be as independent as possible). It is always oversubscribed.
- Staff put their redundancy payments into the £70,000 required to buyout the complex.
- The men look after their own rooms and are happy to help out with work that needs doing. There are wood workshops, gardens etc. There are cleaners for the communal areas and cooks who provide a choice of meals in a spotless kitchen.
- The residents are firm friends of the staff – "how's Aunty Barbara today then?" – and when there are trips out organised for the residents they ask the staff to join them too.
- They are also readily accepted by local people, and for instance have a regular quiz team at the local pub.
- The staff actually listen to what the residents want. For example they are building single units for those who wish or need to be on their own for various reasons.

History

20 years ago the centre was run as a DSS* Reception Centre for 'men of the road'. The complex was actually built for the Bevan Boys (conscripted mine workers) and the police then used it as a training centre before the DSS took it over. An old photograph shows how it was then: rows of dilapidated structures that housed the men, a central storehouse and kitchen, workshops and allotment gardens to the rear where the residents worked each day (for their bed in the evening). Residents were forced to work for their food; their clothes were taken away to make sure they did not leave the premises after their evening meal, and if they did the police were called to arrest and return the 'absconder(s)'. It was run like a prison camp with an 'us and them' relationship between the residents and the staff (who 'felt like screws'). There was vandalism and violence.

In 1991 the DSS decided to close the centre. Staff had to start turning people away – "it was really awful because you didn't know where they would end up or if they'd end up somewhere really bad". The staff formed a working group and lobbied the local press and MPs. A sit-in was staged by 35 residents and staff. There were articles in the newspapers and on three television programmes at prime time. Durham Co-operative Development Association got involved and proposed a staff buyout – this had not been considered but once mooted the staff knew they had the skills and knew it was a viable proposition – despite the unhelpful comments of a senior cabinet minister at the time who said they would not have the ability to run it. Of the 20-odd staff members at

**The Department of Social Security, now called the Benefits Agency*

Employee Buyout

the time over half of them felt strongly enough to put their redundancy payments into the £70,000 buyout price.

Structure and governance

The complex is run by a management committee – called a 'general council' – of five employee-directors with a wide range of skills – care, carpentry, building, accounting, plumbing etc. The directors work to make the best of their skills and take an active interest in what is happening.

Initially 10 of them tried to run the company but it was felt there were too many to be effective, and it caused too much conflict as agreement is more difficult the more people you have. They have a personnel sub-committee consisting of four of them to iron out the day-to-day conflicts and problems, leaving the general council to deal with the wider picture. This has been successful and has reduced the conflict and bad feelings initially experienced.

There are now eight full time workers (five of whom are directors) and seven part time workers, all locally recruited.

Current activities and business strategy

Residents are referred by doctors, police, probation service and other agencies – or people arrive just because they know it's there. They have people from Scotland, Southampton, Ireland and England. They keep a balance of ages because too many young ones tend to form gangs – a mix is deliberately kept to keep conflicting behaviour to a minimum. Residents are initially taken to the doctor who assesses any health needs and may provide medication or refer a community psychiatric nurse from the social services for them. Then the person is taken to their bungalow and settled in. They have meals in the central kitchen which is also a meeting place. In their shared bungalows they have kettles to make their own drinks, a shared bathroom and their own bedroom. The residents' stay is not time limited and some have been there for many years.

The directors plan to extend the range of accommodation available by building flats to allow more residents to have a little privacy

Member benefits

The employee-members' benefits included keeping their job (although some were offered redeployment) and the knowledge that they had kept many men from being sent to 'DSS places' – "there are some grotty B&Bs out there".

Multi-Stakeholder Buyout from an Externalisation

HOME TO WORK

Fact file

Name of enterprise:	Home To Work Limited
Location:	Cleator Moor, Cumbria
Legal structure:	Company Limited by Guarantee
Type of activity:	Horticulture, painting and decorating
Date established:	April 2001
Latest annual turnover:	£210,000

Key features

- The enterprise started out as a project of a housing association, but has been externalised as a successful social enterprise.
- The ongoing commitment and support of Home Housing has been critical to the project's success.
- The enterprise is owned and governed by a multi-stakeholder group bringing together a range of different interests in the Cleator Moor area.
- The nature of the enterprise – providing services for vulnerable groups and providing employment/training for people trying to find a way into the labour market – means it cannot be commercially self-sufficient. However, there is a clear desire to generate trading income and to identify new markets to increase this.
- The philosophy of intermediate labour market (ILM) projects is less easily employed in rural than urban areas because the labour markets for particular skills are much smaller.

History

Originally the enterprise was started in 1998 as a project of Home Housing Association as a means of providing local services to some of its more vulnerable tenants and providing local employment and training opportunities. It concentrated on providing gardening and painting and decorating services for tenants of Home Housing. The aim was to operate as an ILM, providing employment and training which would enable to move into the mainstream labour market.

In 2000, Home Housing decided that the enterprise should become a free standing social enterprise. A multi-stakeholder Board was brought together, including the community, the employees and key supporter agencies including Home Housing and Cumbria County Council. The Board worked to develop a business and operational plan to create an independent enterprise which was launched in April 2001. The project received specialist advice and training from Cumbria County Council and Lancashire CDA.

Funding was sought from a variety of sources, including ERDF, SRB, Home Housing and Cumbria County Council. It was also expected that the enterprise would generate income from trading activities.

In its first 18 months of trading, Home To Work has grown to employ 16 full time staff, as well as 3 County Council placed trainees, 4 trainees from the British Trust for Conservation Volunteers and 4 year 11 pupils on a programme called 'Bridge To Employment'. 16 people employed/trained by Home To Work have moved into mainstream employment.

Structure and governance

Home To Work is a company limited by guarantee with a multi-stakeholder Board comprising four community directors, four employee directors and four directors from supporting organisations (currently Home Housing, Cumbria County Council, Copeland Borough Council and the Employment Service). There are currently two vacancies for employee directors, but efforts are being made to recruit these.

There is a lot of community support for the project, but so far no community representatives involved except for the four directors. Home To Work is planning to advertise to recruit more active people from the community.

Multi-Stakeholder Buyout from an Externalisation

The Board meets monthly and works well together. Day to day management responsibility falls on Bill Robson, the Business Development Manager, who is not a member of the Board.

Current activities and business strategy

The main areas of business are providing horticulture and painting and decorating services for individuals in the community who are unable or cannot afford to do such work themselves, but the enterprise has been moving into providing services for social organisations and schools. They try not to compete directly with the sort of work done by local trades people as their aim is to increase local employment.

The volume of work is higher than they can handle – for example they are dealing with 500 gardens a quarter. They serve a wider area than Cleator Moor, as far away as Whitehaven and Egremont.

Many of the trainees/employees are New Deal placements.

The enterprise is only semi-commercial with 80% of income coming from grant and 20% from trading income. However, the volume of trading income is expected to increase this year. With the exception of the grant from Home Housing (paid for by a trust established by the housing association) all the other sources of income are retrospective which has caused cashflow difficulties. However, these are now planned into the business. At the moment there are a number of outstanding grant applications which is causing financial uncertainty. Bill Robson believes the enterprise could survive, in a much reduced state, without grant aid.

Home To Work is seeking to develop new markets in recycling e.g. plastics, green waste and computers. This is for two reasons: firstly, they believe this to be a significant commercial opportunity; secondly, they realise that they can't just keep turning out trained gardeners and painters and decorators because there isn't enough demand for them. They are already finding that they are having to keep people on longer than they would hope because there aren't always jobs for them to move into.

Member benefits

The area of Cumbria around Cleator Moor is an area of high unemployment. Most of the agencies involved are therefore concerned to increase access to employment. Home Housing Association also benefits from services to some of its most vulnerable tenants.

For the employees and trainees there is an opportunity to gain real skills in a realistic work environment increasing their chances of employment in the mainstream economy.

For the community representatives there is a desire both to see services for vulnerable members of the community plus social organisations and to improve employment prospects in the area.

Home To Work also has a 'buy local' policy to help support the local economy. Bill Robson estimates that orders have been placed with more than 100 local businesses in Home To Work's 18 months of operation.

Divestment from a Larger Business

GAS SERVICES NORTHERN

Fact file

Name of enterprise:	Gas Services Northern Limited
Location:	Darlington (but serving a wide urban and rural area)
Legal structure:	Employee-owned share company
Type of activity:	A wide range of gas installation and repair work (fixing gas meters for large companies, commission work for offices and schools, commercial and industrial work, air conditioning, heating etc
Date established:	Buyout of part of British Gas Industrial & Commercial Servicing in January 1996
Type of members:	Employee owned

Key features

- Gas Services Northern came out of the old British Gas industrial and commercial servicing arm – but in fact was prevented from carrying over many contracts or other advantages from the previous service
- In many ways, therefore, it was effectively a new start or 'phoenix' – now, however, it has a record of providing a good service by people who know what they're doing.
- They are customer driven and will work around their customers' needs; work is delegated to members rather like sub-contracting – the responsibility for managing each job is in the hands of the delegated member without supervision.
- However, proper training and tools are provided to the staff so everything is to hand and working.
- They all really enjoy their work – and work well together.

History

Following privatisation British Gas began to divest or contract-out many aspects of its operations. An employee buyout of the industrial and commercial servicing arm was proposed – in fact taken through to the offer stage in summer 1995 – but nationally a management-led buyout was favoured. In the north there was a firmer commitment to a more employee-owned model, and this led to much political manoeuvring at the time. Although the workforce was split a small group of employees did succeed in taking over a small part of the former service in the north and setting up a democratic employee-owned company. Durham CDA, with behind-the-scenes technical support from Economic Partnerships, had advised the proposed national buyout, and now provided training on how to set up Gas Services Northern, designed the legal structure, and helped access funding etc.

British Gas promised help and work, and the northern engineers took over the old depot and set up the company on that promise. In the event British Gas provided neither help nor work, and the now redundant engineers found they had no work and no money. With more help from Durham CDA, however, they set about marketing their new business and work started to come in.

Structure and governance

There are four directors, two other engineers and two trainees based in Darlington, plus two contract engineers in Carlisle. The four directors and the two Darlington-based engineers all attend regular monthly meetings, where decisions are made by consensus. Everyone is kept informed as they have found poor communications cause problems – and in the past led to one staff member leaving.

Work has to be shared and each member is paid not a regular salary but according to the work they do (although the trainees are paid a standard wage). Each member is expected to carry on work on a job until they are finished (not regular hours) – and they can go home if they finish a job early. Timesheets are not kept – everything is based on trust, and this has generally worked well to date – although they did have problems in the past with inequitable sharing out of work, but these centred around one member who has since left.

Current activities and business strategy

The main aim is to continue to build a good reputation

Divestment from a Larger Business

and extend their work base in current areas; in particular to become more and more customer-led and focus more on their customers' needs.

The current premises are rented, and they are planning to buy the building. This is one example of a broad strategy to find ways to cut costs and increase the company's value while remaining solidly in current work areas.

Member benefits

The members see the main benefit as having kept work in an area in which they are comfortable and skilled. They can work together and enjoy that. The current managing director, Chris, has been able to train his son Mark to make his living in the trade and they have been able to give training and employment to other young men to continue the work. They are a focused company, work well together and make a living. They are very happy that the financial rewards are linked directly to the amount of work done.

Retirement of an Owner

SAVANT ENTERPRISES

Fact file

Name of enterprise:	Savant Enterprises Limited
Location:	Carnforth, Lancashire
Legal structure:	Company limited by shares
Type of activity:	Information technology development and consultancy
Date established:	July 2001
Type of members:	Employee owned
Number of members:	32

Key features

- Enquiry generated from the national Employee Ownership Options website (www.employee-ownership.co.uk)
- Participatory management style and commitment to shared ownership
- Realisation that knowledge of the whole workforce was key to the success of the business and that this gave them significant bargaining power
- The idea and impetus for an employee buyout came from the employees and management, not the owners
- Advice provided from team at Lancashire CDA and Malcolm Lynch (Wrigley's Solicitors).

History

The Savant Group have been established for over 20 years in the small town of Carnforth (North Lancashire). Savant Enterprises was the consultancy and development arm and specialised in systems analysis and the design and build of life critical systems.

Savant has been writing blood product control software since 1982 when a contract was awarded by the Brentwood Blood Centre for the development of a blood laboratory testing system. In 1985, the same system was implemented at the Tooting Blood Centre, the largest in Europe.

In 1996 Savant was awarded a contract for the whole of the English blood service – over the next two years all 14 English blood centres were converted to PULSE. PULSE is a life critical national system which went fully operational on time and within budget.

The family owners decided that they wished to retire in 1999 and seriously considered a trade sale. This would have meant moving the business and staff to another location. The management was unwilling to move and made this fact clear to the owners. Following a web search under 'employee ownership' contact was made with Lancashire CDA and management began to progress the concept of an employee buyout with employees and the owners.

The management and staff knew that they had the skills and expertise to run the company themselves and the employee-owned option offered a real solution to both parties. Wrigley's solicitors designed an employee benefit trust to assist the employees with the transfer. On 4 July 2001, the controlling interest in the Savant Group was transferred to Savant EBT Ltd and the company became employee owned.

Structure and governance

There are two companies involved in the group, the operating company (Savant Group Limited) and an employee benefit trust (Savant Group [EBT] Limited). Savant Group Limited has a board of three executive directors and one director appointed by the EBT. The EBT has a board of two elected employee directors and one appointed by Savant Group Limited.

Savant Group (EBT) Limited has 75% of the votes at general meetings of Savant Group Limited and has provisions in its own rules for matters on which it must ballot the employees before casting its vote. Therefore no fundamental changes can be made to Savant Group Limited without the consent of the employees.

In addition to the Board of directors, there is a management group of eight in the operating company,

Retirement of an Owner

Savant Group Limited, including the two executive directors.

The structure of the sale distinguishes this particular project where the owners receive a proportion of the net proceeds of invoices to existing customers of the company for a period of three years following the owners' retirement.

Current activities and business strategy

Savant is building on a reputation established over 25 years– delivering successful mission critical applications within often time critical requirements. The company is responsible for building one of the world's largest blood transfusion systems on behalf of the National Blood Authority (NBA).

Savant's main areas of expertise include:

- Systems analysis design and build of mission critical systems
- Development of systems to support executive information, business intelligence and corporate communications
- Consultancy for IT and business users in areas such as business process definition and improvement
- Expert advice on information systems strategy, business processes and data management.

Savant continues to develop fast, accurate and sophisticated database applications for national clients and SMEs. Where possible, it builds applications from a collection of reusable software components. The company's approach to software development includes project definition, requirements definition, design, build, test and implement.

Savant has developed consultancy approaches to help organisations to deal with the problem of too much data and too little information. Business intelligence is concerned with synthesising a diverse range of data often held in different formats into useful information for an organisation's management. Consultancy services include information strategy planning, business process and data modelling, process improvement within information system development teams and departmental and enterprise wide information systems.

Savant has developed training as a complementary activity to its consultancy. It undertakes application and general training. The company's approach to training is generally to train the trainers but it also has full-time training staff capable of running training courses in the scope and usage of an application.

Member benefits

There had been considerable uncertainty over the future of the company during the later years of the owner's tenure. The employee buyout has provided security for the employees. It has also secured the location of the business in the small town of Carnforth in North Lancashire.

The transfer to employee ownership has reinforced and formalised the participatory management style of the business. It has also given the employees real ownership of the business with a right to a share of any profits the business generates.

Retirement of an Owner

ASHINGTON AUTOSPARES

Fact file

Name of enterprise:	Ashington Autospares
Location:	Ashington is a small town in south-east-Northumberland, sometimes called 'the biggest mining village in the world', although most of the coal mines in the area have now closed leaving a high level of unemployment
Legal structure:	Employee-owned share company
Type of activity:	Trade and retail motor factory, including paint mixing
Date of establishment:	Employee buyout of existing shop in January 1998
Type of members:	Employee owned
Latest annual turnover:	£200,000

Key features

- In 1997 Brian Todd and Dave Slowey were long-standing employees of Ashington Autospares, which was technically a partnership but largely run by the owner-manager. Brian had worked there since 1971 and Dave since 1989.
- The old owner-manager had often expressed his wish that the employees would take over the business on his retirement. Unfortunately, in the event, he gave them only six weeks' notice.
- This came at a time of uncertainty because a big area of work – parts supply to the local council vehicle fleet – had just been lost.
- Brian and Dave could not meet the six-week deadline. In fact it took them nearly a year to get together the necessary business plan and finance to form a company and buy out the old partners. They really felt the pressure over this period as the idea of selling to a ready buyer was mooted.
- Brian and Dave are local and know their customers personally. They have a laugh and 'a bit of banter' with them – and their word is obviously trusted – 'they may not always be the cheapest but you get a good job there'.
- The company now employs Brian and Dave, another full-timer and two part-timers, including Brian's wife who is company secretary and does the accounts.

History

Although very successful at first, in later years the old owner-manager had lost interest and the business and property had become a bit run down. Brian and Dave had been promised that they would run the business one day, but in the event the old owner gave them only six weeks' notice of retirement and instructed them not to tell anyone about it. This was clearly impossible – and only after much anxiety did Brian and Dave find advisers Economic Partnerships (EP) who assisted in the hard negotiation to extend the deadline and also bring in other supporters, including suppliers (with whom the continuation of credit was vital).

The biggest problem was raising enough money to buy out the business at all. They were turned away by several banks, and met with frustrating procedures by other funders, including the County Council, which kept asking for more and more information even for a small grant. One bank said it would help, only to ring the following day to retract their offer. In the end, support came from the Royal Bank of Scotland which provided a mortgage to buy the building, ICOF, a social lender interested in the employee ownership aspect of the business, and the local district council. Brian and Dave say it is vital to find a progressive funder who can see the possibilities of what you aim to do – but finding them is not easy!

Until they contacted EP, they also had difficulty finding anyone to listen to what they really wanted – other advisers wrote in the business plans what they thought the men ought to do. EP sat and listened to exactly what they wanted and wrote up a business plan which unlocked the money.

"You need someone to believe you can do it"

Retirement of an Owner

Structure and governance:

Brian and Dave are still the company directors and share most management jobs. Over the time they have managed the business they have discovered their strengths and weaknesses, which are openly acknowledged and discussed.

Brian tends to look after the technical aspects (eg the computer) and Dave is more experienced on the paint side (for which they are well known – they can match almost any colour and finish on the market) – so they specialise to some degree but are still flexible when required. They work an average of 60 hours per week and both supervise the other staff who serve retail customers, order and deliver stock. Everyone works hard but there is a give and take attitude that engenders respect. They have regular meetings to discuss the business and any potential problems. Brian and Dave agree that being honest and talking things through were and are key to their success. They knew each other well before taking on the business together and they feel this was a big bonus – even though they don't get much time to socialise together now. They can and do disagree, but without bad feelings, and they retain their respect for each other.

Current activities and business strategy

Key success factors have been

- Self-belief
- Sense of humour
- Hard work for long hours
- Persevering when things are rough
- Working as a team
- Being honest and talking problems through
- Going out of your way for customers. "We are too soft and some things take too long – but our customers come back"

Brian and Dave don't have a formal written business plan now –"A business plan is something you take to the bank manager, who doesn't seem to take much note of it, then puts it away in a drawer".

However, they obviously do have plans. They have ploughed back profits into the business – especially improving the property and its image. They want to diversify their stock further (although they pointed out that, unlike in other types of business, the stock is always changing with new models of cars etc, so it does not make sense to fill space with stock that may be obsolete in six months). They concentrate on getting business and servicing the customer and it is this aspect that they wish to drive forward. They rely on the Yellow Pages and word of mouth – but this supplies enough customers.

Member benefits

They have had the opportunity to run their own business and have a job that pays above the minimum wage. To date they have ploughed most of the money back into the business but can see that a few years hence there will be benefits to be reaped.

They can run the business as they see fit, which is satisfying after being in the position of employees knowing what needed to be done but not being allowed to do it. They entirely refitted and carpeted the shop front and office, and a new delivery van was purchased, along with computers, so that stock-taking and ordering (while slower at first) was much improved. All in all, the whole business has been slowly upgraded and brought into the 21st century.

Further Reading and Resources

PUBLICATIONS

Employee Ownership Options – information pack covering legal structures, employee benefit trusts, divestment, externalisation and a number of case studies. Outcome of a European ADAPT project compiled by partners. Download from www.employee-ownership.org.uk

Externalisation and the Democratic Enterprise – a training materials guide. Mick Taylor (Gowland Taylor Associates) and Sipi Hameenaho. Available from Co-operatives[UK], Holyoake House, Hanover Street, Manchester M60 0AS, tel 0161 246 2959

Employee Share Ownership – an executive briefing. Bacon and Woodrow (Chartered Institute of Personnel and Development) ISBN 0852929021.

SME Ownership Succession – Business Support and Policy Implications (SBS Research and Evaluation, Sheffield). Chris Martin, Dr Lynne Martin and Alan Mabbett, Knowledge Management centre, Business School, University of Central England. Available to download from www.sbs.gov.uk under Research/Key Published Research.

Company Succession – Introducing Employee Buyouts. Industrial Common Ownership Finance Limited, 227C, City Road, London, EC1V 1JT, tel 020 7251 6181, www.icof.co.uk

Employee Buyouts and Employee Involvement: a case study investigation of employee attitudes. Lisa Trewhitt, Industrial Relations Journal published by Blackwells Publishing. ISSN 0019-8692. See: www.blackwellpublishing.com/journal.asp?ref=0019-8692

Turnarounds – a development worker's guide to democratic conversions and buyouts. Geof Cox. ISBN 8700018 13 3. Available from Co-operatives[UK], Holyoake House, Hanover Street, Manchester M60 0AS, tel 0161 246 2959(Limited availability)

Jobs and Fairness: the logic and experience of Employee Ownership. Robert Oakeshott. Published by Job Ownership Ltd, tel 020 7821 9298. See www.jobownership.co.uk

The ICSA Employee Share Schemes Handbook. David Craddock. ISBN 1860720978

The Real World of Employee Ownership. John Logue, Cornell University Press, ISBN 0801433495

WEBSITES

www.cooperatives-uk.coop Co-operativesUK is the apex organisation for all forms of co-operative enterprise. Its purpose is to develop and extend the co-operative sector.

www.co-operativebank.co.uk In addition to over three million customer accounts, the Co-operative Bank is banker to local authorities, many businesses and particularly the retail co-operative movement. Tel: 0800 783 4745.

www.cms.coop An employee-owned business providing specialist consultancy to co-operatives and social enterprises in the North West of England.

www.co-active.org.uk Founded over 15 years ago, Co-active has a long and successful record developing social enterprises (co-ops, community businesses etc) in the South West of England. A not-for-profit organisation, it is working to develop economic opportunities for individuals and communities.

www.economicpartnerships.com A team of specialist advisors on social enterprise development based in the North East with wide-ranging experience in the field.

www.enterprisingcommunities.org.uk Enterprising Communities has been set up by Voluntary Action Cumbria in collaboration with the Cumbria Local Enterprise Agency Network to provide a range of business advice and developmental support specifically for social enterprise in rural Cumbria.

www.plunkett.co.uk An educational charity which supports the development of rural group enterprise worldwide with 80 years' practical experience of working with public and private sector partners to promote and implement economic self-help solutions to rural problems.

www.efesonline.org The European Federation of Employee Share Ownership

www.inlandrevenue.gov.uk From the home page, click on "businesses" and page down to Employee Share Schemes under features. This area contains information and guidance on all approved and non-approved share schemes (including the tax and National Insurance Contributions advantages/disadvantages of each)

www.fsa.gov.uk Website of the Financial Services Authority

www.o2.org.uk Resource to enable housing and regeneration organisations to become more effective investors in the community

Further Reading and Resources

www.jrf.org.uk

The Joseph Rowntree Foundation – a social policy research and development charity which commissions research to better understand the causes of social problems and to develop more effective ways of overcoming them.

www.centre.public.org.uk The Centre for Public Services which works with Local Authorities, health and public bodies, trade unions and community organisations on research, strategy, planning and training.

www.baxipartnership.co.uk Its purpose is to invest in companies to help them develop successfully in employee ownership

www.employee-ownership.org.uk Provides information on how employee ownership can bring benefits to employees, business owners and trade unions. It raises awareness of the business options available when businesses are threatened with closure due to succession problems or divestment.

www.sbs.gov.uk The purpose of this government agency is to build an enterprise society where all small businesses thrive and achieve their potential.

www.jobownership.co.uk Job Ownership Ltd has been researching, lobbying and advising on employee ownership for over twenty years both in the UK and around the world. It is an independent, not-for-profit organisation supported financially by the leading employee-owned companies in the UK.

www.icof.co.uk Has been providing loan finance for co-operatives, employee owned businesses and social enterprises for 30 years. It raises the money to do so primarily by public share issue.

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