FairShares Co-operative Model

Model Articles

a new model for self-governing co-operatives and social enterprises operating under Co-operative Law.

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Model Articles of Association

FairShares Social Co-operative
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No warranty is provided that they are suitable for your situation. They are provided to stimulate and inform innovation in co-operative and social enterprise development, to inform practice, and also to stimulate new thinking about the democratisation of management, ownership and governance in a socially enterprising economy.

As with all model rules, professional advice is recommended to help you adapt them to your specific needs and circumstances.

The FairShares Model, supporting document and further model Articles of Association are available from the FairShares Wiki at www.fairshares.wikispot.org. Files are available for download to members of the FairShares Association.
Model Rules for a
FairShares Social Co-operative

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REGISTERED UNDER
THE CO-OPERATIVE, COMMUNITY BENEFIT SOCIETY
AND CREDIT UNION ACT 2010

RULES OF

[CO-OPERATIVE SOCIETY NAME]

1. **Definitions.** In these Articles:-

   "the Act" means the Co-operative and Community Benefit Societies and Credit Union Act 1965, and amendments in subsequent Acts up to and including the Co-operative and Community Benefit Societies and Credit Union Act 2010.

   "Cash" includes cheques, electronic fund transfers, IOUs, promissory notes and money orders.

   "Member" a holder of a Founder, Labour or User Share.

   ["Beneficiary" a person for whom an Investor Account has been created by the Co-operative Society].

   "Quorum" a meeting in which a sufficient number of people are present to take decisions that are binding.

   "Ordinary Resolution" means a proposal accepted by a majority of votes cast irrespective of shareholder class.

   "Class Resolution" means a proposal accepted by a majority of votes cast in one shareholder class on a one-shareholder one-vote basis.

   "Special Resolution" means a proposal accepted by a majority of votes cast in each shareholder class separately, on a one-shareholder one-vote basis, plus at least 75% of all members in favour irrespective of shareholder class on a one-shareholder one-vote basis.

   "Reserves" exclude the current year's profit and loss account.

   "Labour Share" is a share owned by a member who invests labour in the Co-operative, entitling her or him to participate in governance and receive a share of surplus. For the purposes of clarity, any person recognised in UK Employment law as a ‘worker’ will qualify for Labour Shares if they have contracted to work for the co-operative for more than 1 year.

   "User Share" is a share owned by a member who is a user of the co-operative’s services, entitling her or him to participate in governance and receive a share of profits. For the purposes of clarity, any person recognised as a beneficiary or a customer of the organisation will qualify for User Shares if they have contracted to use them regularly for more than 1 year.

   "Investor Account" is an account created by the co-operative for a member, into which the member's capital contributions and share of surplus are credited.
“Founder Share” is a share owned by a founder of the co-operative, entitling them to participate in governance.

“IPS” is an Industrial and Provident Society.

“CIC” is a Community Interest Company.

2. Regulations in Companies Act 2006 do not apply unless they are referenced directly in these rules.

3. The name of the co-operative society is [CO-OPERATIVE NAME]

4. The registered office of the co-operative is in [Great Britain or the Channel Islands].

5. The co-operative’s object is:
   a. to carry on business as a commercial enterprise;
   b. to pursue trading activities that are both economically and socially responsible;
   c. to develop a social enterprise rooted in co-operative values and principles for the encouragement, development and promotion of business services that support human relationships and democratic governance;
   d. to abide by the internationally recognised values and principles of co-operative identity as defined by the International Cooperative Alliance, in particular the values of self-help, self-responsibility, democracy, equality and solidarity and the ethical values of honesty, openness, social responsibility and caring for others;
   e. to abide by principles of equality of opportunity and oppose forms of discrimination on the grounds of social class, race, ethnic origin, gender, sexual preference, age, disability and religion; and
   g. [Add other community interest / public interest objectives here].

6. The liability of members is limited.

7. The co-operative has the power to do anything which is incidental or conducive to the furtherance of its objects.

8. The co-operative’s initial share capital is [£15] divided into 3 classes of share:
   a. [5] Founder Shares of nominal value £1
   b. [5] Labour Shares of nominal value £1 each,
   c. [5] User Shares of nominal value £1 each.

9. These rules may be altered only by Special Resolution of all shareholder classes, i.e. passed by a majority of votes cast in each shareholder class separately and an overall 75% of members in favour, on a one-shareholder, one-vote basis.

MEMBERSHIP AND CAPITAL

10. Membership and Share Capital. The co-operative is open to applications for membership in the appropriate class without discrimination, subject to a membership policy agreed by the Management Committee (MC). This policy will be made available to current and prospective members, and will specify:
   • the responsibilities of membership that members are expected to comply with,
   • the application procedure, which may include a reasonable probationary period
   • the issue of at least one Labour and/or User share
   • the transactions with the co-operative that qualify an applicant for membership in each class.
   (a) Members who satisfy membership criteria shall be issued Labour and/or User shares reflecting their relationship to the co-operative on the anniversary of their application. The rights and conditions attaching to shares are:
12. 

(i) **Founder Shares**: issued at par value to the natural or legal persons who found the enterprise; non-transferable; one vote per shareholder at General Meetings; 1p fixed preference dividend; forfeited on holder’s death, bankruptcy or insolvency; cancelled without payment on winding up.

(ii) **Labour Shares**: issued at par value to natural or legal persons who invest remunerated labour in proportion to their labour contribution; non-transferable; one vote per shareholder at General Meetings; 1p fixed preference dividend each; forfeited on holder’s death, bankruptcy or insolvency; cancelled upon cessation of contracts to provide labour; cancelled without payment on winding up.

(iii) **User Shares**: issued at par value to natural or legal persons who use the co-operative’s products and services; non-transferable; one vote per shareholder at General Meetings; 1p fixed preference dividend each; forfeited on holder’s death, bankruptcy or insolvency; cancelled upon cessation of a trading relationship; cancelled without payment on winding up.

(b) **Investor Accounts** will be created for each Labour and User shareholder, and for any natural or legal person accepted by members as a provider of risk capital to the co-operative;

(i) Interest at [3%] above the bank base rate of the Co-operative Bank will be paid each year on the balance in each members’ Investor Account.

11. **Redemption of Investor Accounts.**

(a) Providing a member is not in debt to the co-operative, their Investor Account may be redeemed under the following terms using capital in the co-operative’s Redemption Fund. The Redemption Fund is one half of the co-operative’s Reserves.

(i) If the Redemption Fund contains no funds, members may not redeem their Investor Accounts.

(ii) Investor Accounts will be redeemable after [3] years, or termination of membership or retirement or death or insolvency.

(iii) If the Redemption Fund contains insufficient funds to satisfy all redemption requests, the oldest Investor Accounts will be redeemed first.

(b) The 5 members with the largest amount in their Investor Account should be listed, together with their contact details, at the start of the register of members.

(c) Nothing in these rules requires title to securities to be evidenced or transferred by a written instrument if the Act permits otherwise.

12. **Equity Capital Stakes.**

(a) Every natural and legal person contracted to provide labour continuously for more than one year (director, employee, supplier or self-employed contractor) will be offered Labour Shares proportionate to their labour contribution at the conclusion of their probationary period. They will also be offered a chance to deposit capital in an Investor Account to the value of [15%] of their initial labour contract (i.e. a person’s annual salary, or projected annual value of the contract for services) after 366 days (1 year + 1 day) of continuous service;

(b) Every natural and legal person who has contracted to be a customer or user of the co-operative’s products and services for more than one year will be offered User Shares proportionate to their usage of the co-operative’s products and services. They will also be offered a chance to deposit capital in an Investor Account to the value of [15%] of the value of the products and services provided to them;

(c) The co-operative may lend money to an existing member at 3% above the bank base rate of the [Co-operative Bank] for the purpose of establishing their Investor Account;

i) Subject to special resolution, the provisions in clauses 12 (b) and (c) can be applied to other legal entities (companies, co-operatives, associations, charities etc.) who support the work of the co-operative.

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ii) The Management Committee (MC) shall not be entitled to reject applications for membership, withhold share offers or deny an Investor Account to members on the grounds of social class, age, politics, race, creed, religion, culture, ethnic origin, sex or sexual orientation, marital status or disability.

(a) Pre-emption rights are excluded.
(b) The co-operative is to be valued at the start of every financial year, and this is the “Reference Value”.
(c) At incorporation, the Reference Value of the co-operative is £0.
(d) Thereafter, the Reference Value shall be calculated from the book value of fixed assets plus 20 times the Investor Share for the previous accounting period (see Clause 44).
(e) A Class Resolution can require revaluation of the co-operative or any of its assets.

14. Share Issues
(a) The co-operative may only issue new Labour or User shares.

15. Free Shares and Fair Price. A FairShares Co-operative Society does not implement the concept of a ‘Fair Price’ or issue ‘Free Shares’ (as takes place in a FairShares Company). Capital Gains are credited directly to Labour and User Shareholders’ Investor Accounts (see Clauses 39 to 41).

16. Borrowing. The directors may exercise all the powers of the co-operative to borrow money and to mortgage or charge its undertaking, property and assets (present or future) and to issue debentures.

GOVERNANCE
17. Management Committee (MC) members may call General Meetings and, on the requisition of members holding a tenth or more of the shares in any class, must convene a General Meeting for a date not later than 4 weeks after receipt of the requisition.

18. In each financial year, a minimum of one General Meeting will be held in addition to the Annual General Meeting (AGM).
(a) No business shall be transacted at a General Meeting unless a quorum of members is present. Unless and until otherwise decided by General Meeting, two-fifths of the membership shall be the quorum, subject to the number of members being more than [10] and less than [50].
(b) In the event of the membership exceeding [50] the quorum shall be [20].
(c) In the event of the membership being less than [10], the quorum shall be one-half subject to a minimum of [3].
(d) No business shall be transacted at a General Meeting until the meeting has agreed a chairperson. Whenever a President is in post, the President will chair the General Meeting. If a President is not in post, or the President is not present, the meeting will elect one of the MC members to chair the meeting. If no MC member is present, the meeting may elect a chairperson from amongst those present.

19. The General Meeting can set corporate policy, approve/reject social enterprise plans, and take decisions about acquisition and disposal of property, and partnership arrangements with other organisations.
(a) A proposal to acquire another organisation may be taken by Ordinary Resolution.
(b) A proposal to merge or sell the co-operative must be put as a Special Resolution.
(c) A proposal to wind up or dissolve the co-operative must be put as a Special Resolution.
20. Corporate policy and social enterprise plans are implemented by a Chief Executive Officer or Executive Team appointed by MC Members. The MC will stipulate their authority whenever appointed.

(a) When no Chief Executive Officer or Executive Team is in post, the MC member with the most Labour Shares will assume the responsibilities of the Chief Executive Officer until a new Chief Executive Officer or Executive Team can be appointed.

(b) If the situation in 20(a) arises, and two or more directors have the same number of Labour Shares, the longest serving member will assume the responsibilities of the Chief Executive Officer until a new Chief Executive Officer or Executive Team is appointed.

(c) The Chief Executive Officer or Executive Team is responsible to the General Meeting and MC for the organisation and management of the co-operative and the implementation of the co-operative’s social enterprise plans.

21. Every Founder, Labour and User Shareholder can attend, speak and propose resolutions at a General Meeting, can stand (subject to clauses 30 and 31) for election as an MC Member and can cast one vote at General Meetings (except as provided for in clauses 23 and 24).

22. Any person can act as a proxy for a member at General Meeting. An instrument appointing a proxy must be written in a usual form, or a form approved by the MC Members.

(a) A proxy may act for a maximum of one other member at General Meetings (i.e. can cast a maximum of two votes, including their own).

23. Decisions at General Meetings are made by passing resolutions with a show of hands, unless a poll is demanded by at least [2] members. Unless required by law or by these articles, all decisions will be made by Ordinary Resolution, i.e. passed by a simple majority of votes cast.

(a) For Ordinary Resolutions taken by a show of hands, Founder, Labour and User shareholders have one vote each, irrespective of the number of shares held.

(b) For Ordinary Resolutions where a poll is called, only Labour Shareholders and User Shareholders vote on the basis of their shareholdings. Founder shareholders may vote using their Labour and User Shares.

(c) If a poll is requested by at least [2] members, the chairperson must offer each shareholder class a chance to pass a Class Resolution in accordance with the provisions of Clause 25 before proceeding with the poll.

24. On a show of hands every member holding a share who is present in person or by proxy, has one vote. On a poll, every Labour and User shareholder who is present in person, by representative or by proxy, has one vote for every share held conferring a vote on the issue which shall then be subject to the following adjustments:

(a) The votes for and against the resolution will be recalculated using the following formulae:

   i) \[ \text{Labour Votes For} / \text{Labour Votes Cast} \times 50\% \]

   ii) \[ \text{Labour Votes Against} / \text{Labour Votes Cast} \times 50\% \]

   iii) \[ \text{User Votes For} / \text{User Votes Cast} \times 50\% \]

   iv) \[ \text{User Votes Against} / \text{User Votes Cast} \times 50\% \]

   (b) The total vote for the resolution is the aggregate of i) and iii)

   (c) The total vote against the resolution is the aggregate of ii) and iv)

   (d) For the resolution to pass, the aggregate of i) and iii) must be greater than 0.5, otherwise the resolution is not passed.
Worked Example – Taking a Poll for an Ordinary Resolution at a General Meeting

Labour Shares Cast: 17
Labour Shares For: 12  = 12 / 17 * 50% = 35.5%
Labour Shares Against: 5  = 5 / 17 * 50% = 14.7%
User Shares Cast: 170
User Shares For: 40  = 40 / 170 * 50% = 11.8%
User Shares Against: 130  = 130 / 170 * 50% = 38.2%
Total For = 35.3% + 11.8% = 47.1%
Total Against = 14.7% + 38.2% = 53.9%
The resolution is defeated.

25. **A Class Resolution passed by any shareholder class can amend an Ordinary Resolution so that it becomes a Special Resolution (with the exception of contract terminations described in clause 51).**

(a) A Special Resolution is passed if:
   i. a majority of votes cast in each shareholder class separately (on a one-shareholder one-vote basis) are in favour of the resolution;
   ii. at least 75% of all members cast their vote in favour of the resolution, irrespective of shareholder class, on a one-shareholder one-vote basis.

26. Unless a poll is demanded, a declaration by the chairperson at the meeting that a resolution has, on a show of hands, been carried or lost and an entry to that effect in the book containing the minutes of the proceedings shall be conclusive evidence of the fact without proof of the number or proportions of the votes recorded in favour or against a resolution.

27. A written resolution signed by all members is valid as if properly passed at a General Meeting.

28. The proceedings of a meeting are not invalidated by the accidental omission to give notice of the meeting to, or the non-receipt of notice of the meeting by, a person entitled to receive notice.

29. **Management Committee Members (Directors).** The co-operative shall have a Management Committee (MC) of between two and [nine] members, except in the following circumstances:

   (a) The co-operative is in receipt of grant or loan funding from a public authority, charitable body or other asset-locked organisation (e.g. a credit union, community cooperative or community interest company), in which case the minimum number of directors shall be three with at least one from each shareholder class and one financial specialist.

   (b) The co-operative has [50] or more members, in which case the minimum number of directors shall be five (with at least one from each shareholder class, and at least one financial specialist)

30. If the co-operative has fewer than [50] members, MC members will be proposed by the Founders or existing MC members and confirmed by Ordinary Resolution.

   (a) Co-operative directors may freely negotiate contracts of any value until the co-operative files its first set of accounts. Thereafter, the MC may freely negotiate contracts to the value of [25%] of the co-operative's annual turnover (as reported in the previous year's filed accounts). Contracts in excess of this amount require General Meeting approval.

   (b) A director may be removed at General Meeting by Ordinary Resolution.

31. If the co-operative has [50] or more members, directors and a president will be elected annually as follows.

   (a) Labour Shareholders will elect a maximum of [two] directors (one will be subject to re-election by rotation every two-years).

   (b) User Shareholders will elect a maximum of [two] directors (one will be subject to re-election by rotation every two-years).
(c) Investor Account Holders will elect a maximum of [two] directors (one will be subject to re-election by rotation every two years).

(d) Founder Shareholders will elect a maximum of [two] directors, who may be removed only by the provisions set out in 31(f).

(e) A maximum of [one] director may be appointed (co-opted) by the other directors for their specialist financial skills.

(f) A director may be removed from office at any General Meeting by a Class Resolution of a shareholder class that elected him or her, or by Ordinary Resolution.

(g) A co-operative president will be elected from amongst the MC members on a poll of all shareholders (one vote per shareholder) at the Annual General Meeting. The president has a non-executive role in the running of the co-operative, and is responsible for overseeing MC meetings, maintaining the public image of the co-operative, and facilitating good communications between directors and co-operative members. The president has a casting vote at MC and General Meetings, but is not required to use it.

(h) In the absence of a president, or if a president is not elected, the holder(s) of Founder Shares will fulfil this role (as set out in 31(g)).

(i) A director cannot be removed by other directors except at General Meeting (as set out in 31(f)).

(j) Co-operative directors may freely negotiate contracts to the value of [12.5%] of the co-operative's annual turnover (as reported in the previous year's filed accounts). Contracts in excess of this amount require General Meeting approval.

32. MC meetings may be held between General Meetings by any means defined for the Board of Directors within the Companies Act 2006, including video and audio conferencing.

(a) All acts done by any meeting of the MC or by any person acting as a member of the MC, even if it be afterwards discovered that there was some defect in the appointment of any MC member or person acting as such, or that they or any of them were disqualified, be as valid as if every such person had been duly appointed and was qualified to be an MC member.

EXPENSES, BENEFITS AND PAY

33. (a) Providers of labour (directors, employees, self-employed contractors) shall be paid reasonable expenses wholly incurred in relation to furthering the interests of the co-operative.

(b) A schedule of acceptable fringe benefits and expenses may be agreed by Ordinary Resolution. Any expenses paid, or fringe benefits provided, outside the scope of an agreed schedule must be itemised in the annual accounts.

(c) Fringe benefits and expenses must be itemised and recorded in such a way that they can be inspected by any member during normal office hours.

34. Remuneration has three components: Basic Wages (“Pay”), Labour Share dividends and Investor Account Bonuses.

(a) Each provider of labour is subject to one or more contracts (employment contract, contract for services or co-operative membership) which controls the manner in which they are remunerated for their labour. These articles, including subsequent modifications, are part of any contract between the co-operative and those providing labour (directors, shareholders, employees, self-employed contractors). All members of the co-operative shall be provided with a copy of these rules upon agreement or variation of a contract to supply labour.

(b) Labour may be recognised solely through co-operative membership and remunerated solely through Labour Share dividends. A formal contract of employment will be issued if, in the view of the MC, ‘employee status’ tests used in employment tribunals have been, or are expected to be, satisfied (i.e. a person works regular hours, receives regular pay, has agreed holiday entitlements and is subject to regular supervision etc.).
(c) If the co-operative issues contracts of employment to members of staff, **the maximum ratio between the hourly rate of the highest and lowest paid member of staff shall be [3:1]**. This ratio can only be amended by a Class Resolution in a meeting of Labour Shareholders. This ratio may **not** be amended by Ordinary Resolution.

(d) At the start of each accounting period, if the co-operative has any employees, an amount equal to (Basic Wages × Current Inflation Rate) will be set aside for increases in Basic Wages. The application of any remuneration system to employees and self-employed contractors is at the discretion of the CEO or Executive Team (unless overridden by the procedure set out in clause 49). If the budget for increases in remuneration is not distributed within an accounting period, any unused part **must** be credited to the Investor Accounts of Labour Shareholders in proportion to Labour Shares held.

(e) An increase in the budget set in 34(d) can only be passed by Special Resolution.

(f) MC members’ pay and conditions follow the same principles as other co-operative members and employees.

35. (a) **“Total Revenue”** means sales plus earnings from services provided plus any other income, but excludes proceeds of new issues of securities or loans obtained.

(c) **“Profit”** is equal to Total Revenue less cost of materials and services less depreciation less rents less interest.

36. **“Associated Costs”** means the costs directly associated with a given amount of Pay, including employee’s and employer’s contributions for National Insurance, superannuation, healthcare plan, childcare, staff club and any other benefits deducted from pay, together with sickness, maternity, paternity or other statutory pay, and Pay-As-You-Earn income tax.

RESERVES, CORPORATION TAX AND DIVIDENDS

37. **“Surplus”** is equal to Profit, less Pay including their Associated Costs, less Corporation Tax.

(a) The first [£10,000] of surplus or 30% of profits (whichever is greater) will be allocated to Reserves as working capital. This amount will be deducted from Surplus before calculating User Share Dividends, Labour Share Dividends and Investor Account credits.

(b) [Half] the amount transferred to Reserve will set aside as a Redemption Fund to satisfy member requests to redeem Investor Accounts as set out in Clause 11.

38. Additional Capital Expenditure, Extraordinary and Research and Development Costs in excess of [£5,000] not financed by fundraising campaign must either:

(a) be deducted from Surplus, or

(b) be paid for from Reserves,

or as determined by special resolution or a qualified accountant. Any member may ask a qualified accountant to determine if an item comes under these categories.

39. **“Labour Share”** and **“User Share”**: The Labour and User Share of Surplus, distributed in dividends, is calculated by multiplying [Surplus] (if greater than zero) for the relevant period by the [Labour Share Fraction] and [User Share Fraction]. If [Surplus] is less than or equal to zero, no Labour Share Dividends or User Share Dividends are paid.

40. **“Labour Share Fraction”** and **“User Share Fraction”**

The Labour Share Fraction and User Share Fraction are both [0.35] and may be changed only by special resolution.

No Labour or User Shareholder may receive a dividend of more than [Surplus] x [Labour Share Fraction].
41. **“Labour Share Dividends” and “User Share Dividends”**

   At the end of an accounting period, the Labour Share and User Share will be credited to the Investor Accounts of each Labour and User shareholder. The amount credited is calculated as follows:

   \[
   \text{[Labour Share]} \times \left(\frac{\text{Member's Labour Shareholding}}{\text{All Issued Labour Shares}}\right) \quad \text{plus} \quad \text{[User Share]} \times \left(\frac{\text{Member's User Shareholding}}{\text{All Issued User Shares}}\right).
   \]

42. **Labour Share Advances.**

   At the discretion of the MC, members and employees may be advanced a proportion of their projected Labour Share Dividends on a regular basis in addition to monthly Pay. Advances must be listed in the annual accounts and deducted from the Labour Share before calculating Labour Share Dividends.

43. Providers of labour (directors, employees, self-employed contractors) may, subject to mutual consent, be part-paid by credits to their Investor Accounts.

44. **Investor Account Bonuses (Investor Share)** are paid after Labour and User Share dividends.

   a. The “Investor Share Fraction” is [0.3] and may be changed only by Special Resolution.

   b. The Investor Share Bonus paid in any accounting period is the lowest of the following:

      i. \( \text{[Investor Share Fraction]} \times \text{[Surplus]}; \) and

      ii. the balance of the profit and loss account, if greater than zero; otherwise it is zero.

   c. The bonus is divided pro rata between all Investor Accounts on the basis of account balances.

   d. Bonuses, if payable, must be paid within [6] calendar months of the end of the accounting period. Interest at the co-operative’s bank overdraft rate is to accumulate on unpaid bonuses after this time.

45. **Credits instead of Bonuses.** The MC can offer all Investor Account holders a chance to reinvest their bonus instead of receiving it in cash.

46. No additional sum may be transferred from the profit and loss account to Reserves unless compensated by credits to Investor Accounts, approved by special resolution, or required by law.

**ACCOUNTING AND AUDITING**

47. Financial and social accounts will be prepared for MC and General Meetings by a person with appropriate bookkeeping and accounting skills / qualifications. They will use accounting conventions agreed by the MC, or as required by law. Any member or person authorised in writing by a member may inspect the accounting records during normal working hours.

   a. If the co-operative has fewer than [50] members, the MC may put an ordinary resolution to the General meeting to approve one of the following:

      i. **Either:** the appointment of independent accountants and/or auditors to undertake financial and social audits;

      ii. **Or:** an application for exemption from audit under the relevant accounting regulations;

   b. If the co-operative has [50] or more members:

      i. The MC shall recommend a choice of financial and social auditors for approval in General Meeting.

      ii. The selected financial auditor shall audit the co-operative’s financial accounts prior to their approval in General Meeting for filing with the relevant regulatory authority.
iii. The selected social auditor shall assist with audit of the internal democracy and decision-making of the co-operative, the wages, health and safety, skill sharing and educational opportunities of its members and employees, or other matters concerning the overall personal or job satisfaction of members and employees; an assessment of the co-operative’s activities externally, including effects on people, the environment and other organisations.

iv. An audit committee of up to four people (comprising non-MC members from at least two shareholder classes) will be elected at each AGM.

v. The purpose of the audit committee is:
   1. to assist and check the preparation of financial records presented to General Meetings so that they are accurate, authentic and meet the needs of members;
   2. to assist and check the preparation of the information needed for a social audit;
   3. to organise elections to the MC at the AGM in accordance with Clause 31;
   4. to record, check and authenticate that the procedures in clauses 17 to 27 are being followed when voting takes place in a General Meeting.

48. Accountants, Auditors and Independent Experts. These must be chosen by ordinary resolution.
   (a) The financial auditor shall be from a Recognised Qualifying Body (RQB).

DISPUTE RESOLUTION AND INTELLECTUAL PROPERTY

49. Labour Contract Revaluations. In the event of a dispute, the escalation procedure is:
   (a) Valuation by a recruitment agency or recruitment consultant agreeable to all parties;
   (b) Appeal (with resolution) subject to a vote at General Meeting;
   (c) Advisory, Conciliation and Arbitration Service (ACAS).

In the event that a labour contract revaluation leads to a breach of the ratio between the highest and lowest paid member of staff (as set in clause 34(c)) the revaluation will only be applied if Labour Shareholders pass a Class Resolution adjusting the ratio to permit the new level of pay. Until such time as a Class Resolution is passed, the maximum pay permissible is capped in accordance with the current ratio (e.g. if the ratio is 3:1, the maximum pay is 3x the lowest paid).

50. Relationship Disputes. In the event of a dispute between two or more members, the escalation procedure is:
   (a) Mediation by the President, or a Director, a management consultant, trade union official or other third-party agreeable to all parties;
   (b) Appeal (with resolution) subject to a vote at General Meeting;
   (c) Advisory, Conciliation and Arbitration Service (ACAS).

51. Except in the case of resignation or voluntary termination by both parties, a member’s employment, supplier contract or co-operative membership may be terminated only after an Ordinary Resolution proposing the termination of the contract has been passed in General Meeting.

   (a) Termination is subject to the satisfaction of all lawful terms contained in the member’s employment and/or trading contract(s). A resolution to terminate an employment or supplier contract, or co-operative membership, cannot be modified by Class Resolution to become a Special Resolution (clause 25 does not apply).

52. The co-operative may pay for directors’ and officers’ indemnity insurance against liabilities related to co-operative business, excluding negligence and/or fraud.

53. Intellectual Property (IP). The co-operative shall record which members have created and contributed intellectual property (IP) to further co-operative objects, and ensure that ownership of all IP remains vested in its creator(s). For the avoidance of doubt, the co-operative shall not own
IP created by members before, during or after their period of membership unless ownership is freely and voluntarily transferred by those members to the co-operative.

(a) All IP created by members while working for the co-operative will be vested in them individually and/or collectively.

(b) As a condition of membership and/or employment, all IP created by members during their work for the co-operative shall be licenced to the co-operative under a Creative Commons Licence for both non-commercial and commercial use, with permission to adapt, share and re-use the IP in product and service development. Any product or service offered will use the same Creative Commons licence unless a variation of this is negotiated with the creator(s) of the IP.

   a. Where a member creates (or members create) IP for the co-operative during their period of membership, the co-operative shall have an exclusive right to use and commercialise the IP while they remain a member. If the member leaves the co-operative, upon termination of their membership, the co-operative shall retain a non-exclusive right to continue using and adapting their IP in both non-commercial and commercial ventures.

   b. Members who leave the co-operative retain a non-exclusive right to use IP they created for the co-operative in both non-commercial and commercial ventures.

(c) IP transferred to the co-operative by members, and IP bought by the co-operative from third parties, shall be made freely available to members for non-commercial use and private study.

(d) The co-operative shall use its best endeavours to manage IP as if it were an ‘intellectual commons’ for the benefit of co-operative members.

**Dissolution**

54. Upon dissolution, a qualified accountant or auditor will calculate the value of **residual assets** 

\[
\text{Residual Assets} = \text{Investor Accounts} + \text{Profit and Loss Account} + \text{Assets - Liabilities}
\]

After satisfaction of all creditors, residual assets will be distributed to Investor Account holders in proportion to the balances in the account after satisfying the following requirement:

(a) If the co-operative has received grant funding from a public authority, charitable body or other asset-locked social enterprise (e.g. a community benefit society or community interest company), a qualified accountant or auditor will verify the amount of funding received, and calculate a **community dividend fraction** and **community dividend**. The **community dividend fraction** will be calculated using the formula shown in 54 (a) (i). The **community dividend** will be calculated using the formula shown in 54 (a) (ii):

   i. \[
   \frac{\text{Community and Public Funding}}{\text{(Community and Public Funding) + Investor Accounts}}
   \]

   ii. \[
   \left(\text{Investor Accounts} + \text{Profit and Loss Account} + \text{Other Assets}\right) \times \text{Community Dividend Fraction}
   \]

---

**Worked Example – Calculating the Community Dividend**

| Community and Public Funding | £100,000 |
| Investor Accounts             | £345,000 |
| Profit and Loss Account       | £200,000 |
| Assets - Liabilities          | £100,000 |

**Community Dividend Fraction**

\[
= \frac{100,000}{100,000 + 345,000} = 22\%
\]

**Residual Assets**

\[
= 345,000 + 200,000 + 100,000 = £645k
\]

**Community Dividend**

\[
= £645k \times 22\% = £144,944
\]
(b) If the total value of residual assets is greater than [£5,000], not less than [community dividend] will be divided equally between the following bodies:

Organisation Name: __________________________________________________________
CIC Company No: ___________________________________________________________
or Charity No: __________________________________________________________
or IPS Registration Number: _______________________________________________

Organisation Name: __________________________________________________________
CIC Company No: ___________________________________________________________
or Charity No: __________________________________________________________
or IPS Registration Number: _______________________________________________

Organisation Name: __________________________________________________________
CIC Company No: ___________________________________________________________
or Charity No: __________________________________________________________
or IPS Registration Number: _______________________________________________

(c) Any remaining assets will be divided equally between Investor Account holders in proportion to account balances at the end of the previous year’s trading. For the avoidance of doubt, changes in balances since the previous year end will be ignored for the purposes of calculating the share of residual assets paid out when the co-operative is dissolved.

(d) In finalising the dissolution of the co-operative, and subject to the requirements of Insolvency Law, debts and payments to creditors and shareholders will be satisfied in the following order:

iii) Outstanding debts to employees, workers and contractors (e.g. wages/fees)
iv) Outstanding debts to other priority creditors (e.g. VAT and taxes)
v) Outstanding debts to suppliers (e.g. unpaid supplier invoices)
vi) Outstanding debts to other creditors (e.g. loan balances)
vii) Payment of the community dividend
viii) Division of remaining residual assets to Investor Account holders