
Saving *The Little Shop* at Winchelsea

**A proposal to re-open the shop
as a community-owned business**

*Winchelsea Little Shop Association
17 December 2001*

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Introduction

The Little Shop is the only general store in Winchelsea. As such, it is a vital amenity. The shop also plays a very important role in the day-to-day life of the Town. Unfortunately, the business has lurched from one financial crisis to another. The end of the road appeared to have been reached in September, when a fire closed the shop.

However, it is our intention to re-open *The Little Shop* and to try to secure its long-term future. We believe that this is possible only as a community-owned business. Accordingly, we have formed the Winchelsea Little Shop Association to organise the rescue of *The Little Shop* and take over its running. At the moment, the Association is an informal group. In due course, it will become a not-for-profit, limited liability company in the form of an industrial and provident society.

The Association needs your support. This means joining and buying a share. We are also asking you to consider making a loan or donation. This document is, in effect, a prospectus for the Association.

Each share in the Association will cost £10 and will entitle you to one vote at general meetings. No one can hold more than one share, so every member of the Association will have an equal say in its running. Shares cannot be sold on or bequeathed, and they will not pay a dividend. In effect, a share in the Association is a membership fee.

Loans can be made to the Association in any amount. The Association will try to repay loans, but this depends on the shop producing sufficient surplus income. It is unlikely that interest will be paid on loans (a decision on this will be taken by the first AGM of the Association). Loans will take the form of debentures. These are contracts under which the lender is a preferred creditor in the event that the shop fails and is put into liquidation.

Money raised by selling shares and debentures, and money donated to the Association, will provide working capital for the shop. The capital to refit the shop is to be raised in grants from the Countryside Agency and Rye Partnership.

If the Association can succeed in re-opening *The Little Shop*, it will be very different from before. The new business will be clean, bright, neat, well-run and friendly --- an asset to Winchelsea in every respect.

In the remainder of this document, we set out the recent history of *The Little Shop*, examine the reasons why it has had financial problems and argue the case for saving it. We then explain why we think the business can be viable, outline our business plan and suggest how the Winchelsea Little Shop Association should be organised. In conclusion, we propose ways in which you can help save *The Little Shop*.

Richard Comotto
Jack Parker

Winchelsea
17th December 2001

The history of *The Little Shop*

The Little Shop has been the only general store in Winchelsea for many years. Until 1997, it was run by a series of lease-holders who lived on the premises. The free-hold was owned by Mrs Croggan of Wickham Manor.

The Little Shop has struggled to survive at least since the 1980s. There have been a number of community initiatives to try to alleviate its problems (eg exemption from business rates and a “reverse credit” scheme). However, given that the shop was a private business, it was never possible to address its more fundamental problems.

In December 1997, the last occupying lease-holder sought to abandon the business. The shop was rescued only by the efforts of two residents, Tony and Lis Jasper, who purchased the lease. The Jaspers ran the business until September of this year.

In 1998, the new lease-holders (with the agreement of the free-holder) agreed to sub-lease the residential premises above the shop to a group of residents wishing to establish a school/community computer centre. The centre would have paid a share of the rent. However, the proposal had to be put into abeyance when the premises were required in order to provide accommodation to an employee of the shop.

In March 1998, Mrs Croggan died. Her estate, including *The Little Shop*, was bequeathed to the National Trust. It was Mrs Croggan’s wish that the Trust use the bequest to help “preserve” Winchelsea.

Although the Trust recognised the important role played in the Town by *The Little Shop*, it was reluctant to become landlord to a village shop and decided to sell the property. This raised fears that the property would be bought by a developer and converted to residential use. Attempts were made by concerned residents to persuade the Trust to sell the building directly to the Jaspers on the grounds that they were the only people willing to keep *The Little Shop* open.

Initially, the Trust was concerned that a direct sale would be open to criticism by the Charity Commissioners. However, residents were able to formulate safeguards allowing the Trust to make a direct sale to the Jaspers while complying with its obligations as a charity. The Trust added an additional safeguard in the form of a covenant restricting the use of the room currently occupied by the shop to that of general store.

The sale of *The Little Shop* to the Jaspers was completed in the summer of this year. However, after four years of running the business, the Jaspers decided to retire. They offered a lease to the group of residents seeking to establish the computer centre on condition that the group also took over *The Little Shop*. In the event, the group decided to form a separate group to manage the shop. This was the nucleus of the Winchelsea Little Shop Association.

After several delays, it was agreed that the business would be taken over by the Winchelsea Little Shop Association in October. An approach was made to the Countryside Agency about a grant under its new Vital Villages scheme to pay for the refitting of the shop and the conversion of the residential part of the building into a school/community computer centre. Advice on running a shop was sought from the Sussex Rural Community Council (SRCC). The SRCC introduced the Association to the Village Retail Services Alliance (ViRSA), which is a charity dedicated to preserving village shops by providing advice and other support.

Although the Association planned to take over the running of The Little Shop in October, it decided to defer the refitting of the shop until 2002 in order to allow time to apply for grants and ensure that the shop was running smoothly under the new arrangement.

In September, the Association's plans were derailed by the fire in the shop. The damage caused by the fire means that it will be necessary to refurbish the premises and refit the shop before re-opening. The Winchelsea Little Shop Association has therefore approached the Countryside Agency and the Rye Partnership for emergency grants.

Since the closure of *The Little Shop*, the Association, with the help of volunteers, has been selling newspapers, magazines, bread and milk between 8am and 10am each day, in order to maintain contact with customers until the shop can be re-opened.

Why has *The Little Shop* had problems?

The Little Shop has suffered from the same problems as every other small shop in the country. It has been the victim of predatory competition from supermarkets, the impact on opportunities to shop locally of the increase in the number of women going to work and of generally longer commuting times, the impact of wider car ownership on the ability and willingness to shop further afield, and a wave of bureaucratic over-regulation.

Wider problems notwithstanding, one of the fundamental weaknesses of *The Little Shop* has been **poor management**, in particular:

- **Lack of strategy.** Previous proprietors of *The Little Shop* did not have a clear idea of who their customers were and how they could best serve them. The challenges and opportunities presented by the changing demography of the Town were ignored. The range of goods on sale was haphazard, unexciting and failed to give prominence to specialities such as seasonal fruit and vegetables, freshly-baked bread and other local produce.
- **Lack of marketing.** A small shop needs regularly to remind customers that it is still there and to demonstrate that it is competitive with local supermarkets. On the one occasion when *The Little Shop* circulated a marketing brochure which compared its prices with those of local supermarkets, turnover jumped by 25%. A small shop also needs to promote goods which it offers but supermarkets do not. *The Little Shop* did not even have an external advertising board.
- **Lack of controls.** *The Little Shop* did not collect data on sales and its financial accounts were a mess. It was therefore impossible to monitor and plan the business or to measure its performance. Profitability was compromised by inattention to margins, poor stock control and inefficient pricing.

The other fundamental weakness of *The Little Shop* was the cumulative effect of a long-term **lack of investment**. Although lease-holders were responsible for both the maintenance of the building and the fitting-out of the shop, they appear to have been unable or unwilling to spend the necessary money on either. By the time of the fire in September, *The Little Shop* had become irretrievably dirty and decrepit. The physical condition of the shop helped to depress business, which reduced the ability to pay for improvements, feeding a vicious circle of decline. It is noticeable that, when the Jaspers took over the shop in 1997, they managed to salvage some business by simply cleaning up and restocking the shop. However, there are serious limits to what can be done without a major refurbishment of the premises.

Is *The Little Shop* worth saving?

For many residents, *The Little Shop* is a **vital amenity**. Winchelsea is somewhat isolated geographically, being situated on a hill from which there is no safe footpath into or out of the Town. Shopping outside the Town therefore requires the use of a car or reliance on the expensive and limited rural bus service. This is a particular problem for the elderly, the infirm and those who cannot afford their own transport (Winchelsea has a high proportion of elderly residents, many of whom moved into the Town precisely because it had a shop). Without *The Little Shop*, even daily newspapers would have to be purchased outside the Town, as there is no longer a newspaper delivery service.

The Little Shop plays a very important **social role** in the Town. It is located in the centre of the Town and provides the focal point for day-to-day life, a place where residents can meet and exchange news, and visitors can ask for information. The role of *The Little Shop* has become even more important since the closure of the sub-post office in November 2000.

The Little Shop fosters a greater sense of **security** among residents, particularly the elderly, by offering a source of advice and assistance. It enhances the actual security of the community by getting people onto the streets throughout the day. Since the closure of *The Little Shop*, Winchelsea has been virtually deserted for much of the day.

The Little Shop provides one of the few sources of **employment** in the Winchelsea, which is situated in a deprived rural and coastal area. Re-opening the shop will provide one full-time and four part-time jobs. *The Little Shop* makes an indirect contribution to the other businesses in Winchelsea --- the pub, tea room, butcher, motel, guest house and several B&Bs --- by making it more convenient to shop in the Town and adding to a sense of vitality which makes Winchelsea a more interesting place to visit.

A village shop like *The Little Shop* has a direct **monetary value** to residents. Estate agents suggest that the presence of a village store can add 10-15% to the value of residential property.

Can *The Little Shop* be a viable business?

Paradoxically, the prospects for *The Little Shop* may have been improved by its recent closure. This has demonstrated just what the Town would lose if the shop were to stay closed and has galvanised support among residents.

At the same time, possible solutions have emerged to the lack of investment which is at the root of many of the problems of *The Little Shop*. First, the premises have been sold to owners (the Jaspers) who are willing to pay for the long overdue refurbishment of the building. Indeed, they have already started the work. Second, grants have become available from the Countryside Agency which could be used to pay for the refitting of the shop.¹

While the premises will be refurbished by the owner and new fittings will be funded from grants, the shop still needs working capital. This is required to buy new stock, fund the deposit required by the newspaper wholesaler and provide a cash reserve. On the advice of ViRSA, we are proposing to raise this capital by public subscription. Specifically, we are proposing to establish an industrial and provident society in which residents can buy shares and to which they can make loans or donations.

A refitted and restocked shop in a refurbished building will have the opportunity to start afresh. It will have goodwill of the Town. The final ingredient will be good management. We believe that the Winchelsea Little Shop Association can provide that management.

The test for the new management of *The Little Shop* will be whether the business can cover its current costs and capital depreciation. In addition, the Association is hoping to generate sufficient surplus income to repay loans and fund the purchase of the premises when the freehold becomes available.

Can this be done? The Association is confident that it can. In reaching this conclusion, we have not felt able to rely on the accounts of the shop, if only because they reflect the difficult circumstances under which the business has had to operate in the past. Instead, the Association has calculated the amount of business that the shop would have to turn over in order to break even and has made a judgement of how feasible this target would be. The break-even calculation has been based on (1) an estimate of expenses and (2) an assumption about the average margin of profit that can be achieved by the shop.

¹ In fact, grant applications are being made jointly by the Winchelsea Little Shop Association and the school/community computer centre committee. The joint application has been strongly welcomed by grant donors. The computer centre will share the rent of the premises with *The Little Shop*, but in all other respects, the two projects will be separate.

The shop's estimated annual expenses are:

rent	5,000
wages	14,794
National Insurance	367
Business Rate	0
water	200
electricity	600
telephone	200
insurance	430
FSA	150
ViRSA	50
total	21,791

Assuming an average margin of 22% ---- which is in the middle of the range for well-run small shops --- it will be necessary for the shop to turn over about £99,048 per annum or £272 per day in order to break even. This is almost exactly the same as ViRSA's estimate of the typical break-even for small shops.

If we wish to generate a surplus income of £5,000 per year, the shop would need to turn over an average of about £122,000 per annum or £335 per day. A surplus of £10,000 per year would require turnover of about £145,000 per annum or £397 per day. Over the last four years, actual daily turnover has fluctuated between £150 and £600 a day. The Association judges that a target turnover of £272 per day is a realistic target and that the higher targets are feasible.

target for annual surplus income	annual break-even turnover	daily break-even turnover
0	99,048	272
5,000	121,775	335
10,000	144,503	397

These calculations are of course only estimates. In order to illustrate the risks inherent in these calculations, the underlying assumptions can be varied. For example, for every £1,000 by which annual expenses may be underestimated, the break-even target increases by £13 per day. For every one percentage point by which the average profit margin is higher or lower than 22%, the break-even target also changes by £13 per day.

variable	variation	impact on break-even turnover
expenses	+£1,000	+£13
profit margin	+/-1%	£13

Does *The Little Shop* have a large enough market to generate an adequate turnover? There are 266 houses in Winchelsea and approximately 600 adults (and 60 children). Assuming no other customers, each adult resident would have to spend £165 per annum or 45 pence per day at the shop for it to break even.

Of course, not all residents will use *The Little Shop* regularly and some will not use it at all. At the moment, about 90 households buy a weekday newspaper and 120 buy a weekend paper. Then again, not all households have a daily newspaper, but do buy other goods. We expect about 60% of households (160 out of 266) to join the Winchelsea Little Shop Association and hope that they will be loyal users of the shop.

However, calculations of market size are complicated by the fact that up to 50% of the houses in the Town are second homes. This means that their occupants may only be present in Winchelsea for perhaps 60 days a year (17% of the year). On the other hand, second home-owners are likely to be high-income and higher-spending than other customer groups.

Another positive is that Winchelsea is visited each weekday for 38 weeks each year by parents dropping off and collecting children from the local primary school. There are currently 143 children at the school. The population of the Town is also expanded each summer by visitors staying at B&Bs, holiday homes and the caravan park below the Town. And there is a steady flow of day tourists throughout the year.

Assuming a regular customer base of 200 adults, the break-even target increases to £1.36 per day per customer. A surplus of £5,000 per annum means expenditure of £1.68 per day per customer. A surplus of £10,000 per annum means £1.99 per day per customer. We believe that these are feasible, although not easy, targets.

On the basis of our experience of selling newspapers, magazines, bread and milk since the shop was closed in September, we believe that the turnover in these items alone can be increased to at least £125 per day once the business is back in its newly refurbished and refitted premises. This is almost half the break-even figure. It should be possible to make up the rest of the target turnover from the wide range of other goods that will be on sale.

What competition does *The Little Shop* face? The main competitors are Alldays in Winchelsea Beach and Budgens in Rye. These shops are the closest to Winchelsea and are often used, like *The Little Shop*, for “top up” shopping. Jempsons in Peasmarsch, and Tescos and Sainsburys in Hastings, are also competitors for *The Little Shop*, but not to the same extent as Alldays and Budgens, as the large supermarkets are more distant from Winchelsea and are therefore used mainly for one-off weekly shopping. Given distance and their narrow product range, we do not believe that other smaller shops in the locality (Sutton’s in Winchelsea beach, the shops in Icklesham or the former farm shop on the way to Icklesham) are serious competitors.

Alldays is an expensive shop and we should have no problem matching, if not beating their prices. Moreover, neither Alldays nor Budgens is a particularly appealing place to shop. Their main advantages are wide product ranges and relative proximity to Winchelsea. We are confident that *The Little Shop* can compete successfully by offering a carefully selected product range, competitive pricing and a pleasant environment.

What is our business plan?

The proposed strategy for *The Little Shop* aims at increasing turnover and profitability by attracting a wider customer base and taking a greater share of their expenditure. This will be achieved by offering a carefully selected range of goods, including local speciality products, and by widening margins through careful sales management, while maintaining competitive prices. The key elements to the strategy are:

- **Location.** The right location is often regarded as the primary tenet of retailing. At least in this respect, *The Little Shop* will have no problems. It is in exactly the right location, at the very centre of Winchelsea.
- **Image.** The refurbishment and refitting of *The Little Shop* will provide an opportunity to create a visual impression that will help to attract both residents and visitors into the shop. *The Little Shop* needs to be made to look like a “classic” village shop. It already has one of the basic ingredients --- an attractive listed building in the vernacular style. However, considerable redecoration is required. The weatherboarding and windows need repainting, and both front doors will have to be replaced. The external light, the trestle tables at the front of the shop and the noticeboard will also need to be replaced. All these requirements are being addressed by the freeholder and the Association. We have received a number of offers of assistance, eg the National Trust has offered to provide a new noticeboard and a resident has agreed to make new trestle tables. Once re-opened, the image of the shop will be reinforced by imaginative decoration to celebrate regular and special events, eg Christmas, Easter, the Jubilee, etc.
- **Housekeeping.** Emphasis will be placed on keeping the shop neat and very clean: small shops have a poor reputation in this respect and *The Little Shop* was very much a case in point. Once the premises have been refurbished and the shop refitted, it will be a lot easier to keep the shop clean. Clear guidelines will be issued to staff and efficient cleaning equipment will be purchased. A member of the Management Committee will take on special responsibility for ensuring that the premises are adequately maintained.
- **Knowing our customer.** A core group of customers currently accounts for the bulk of *The Little Shop*'s regular business. It will be important to understand why this group uses the shop and reinforce their loyalty. In addition, we have identified other potentially important customer groups: “weekenders”, parents of children at the school and summer visitors. Some of these are relatively high-spending groups. It is our intention to cater and market to these groups. In order to identify and understand key groups of customers, we will be undertaking periodic surveys of customers and talking regularly to staff about their perceptions of who uses the shop.

- **Sales analysis and management.** The aim will be to identify which products are selling well and which are not, and to minimise the quantity of stock not on display in the shop. The shop will have a modern electronic cash register and bar coding equipment in order to allow the accurate recording and classification of sales. Once collected, this information can then be analysed and used in forecasting and business planning. We plan to make extensive use of IT in this process and will therefore work closely with the school/community computer centre. Sales analysis and management will overlap with the previous function. One of the Management Committee will take on special responsibility for sales analysis and management.

- **Marketing.** This will take two forms. First, the shop will be provided with a clearly visible blackboard on which to advertise items such as local seasonal produce and special offers. Second, the shop will periodically circulate marketing leaflets. These will keep shareholders in touch with developments, announce new or seasonal lines, and offer up to date price comparisons with local supermarkets. The first leaflet will be circulated a week ahead of the shop's re-opening and will be supported by efforts to secure local press and regional TV coverage. We will also be targeting the opening of a proposed off-licence in the shop and any other major initiatives (eg an off-bakery). Thereafter, marketing leaflets will be targeted at major events such as Easter, school holidays, the arrival in shops of local asparagus and apples, and Christmas. In between, there will be special promotions, including tastings. One of the Management Committee will take on special responsibility for marketing.

- **Product range.** Various initiatives are proposed:
 - **Local produce.** Among other things, East Sussex and Kent produce excellent asparagus, salads, apples, cherries, honey, preserves, smoked meats, ice cream, award-winning wine, traditional beer and cider, and best-quality charcoal. Our bread comes from the widely-recognised Rye Bakery. Such local produce has proved very popular when it has been available and is an area almost completely neglected by the supermarkets. Unfortunately, *The Little Shop* has not made as much of local produce as it could have and has never bothered to market it. We intend to make local produce a speciality and to actively market it. We are also seeking a wider range of suppliers in order to improve the availability of popular items.

 - **Seasonal goods.** The shop will focus on the regular retailing opportunities offered by Christmas and Easter. In addition, in the Spring, it will cater for the large number of gardeners in the Town by selling compost, chemicals, twine, etc. In Summer, the shop will supply barbeques with charcoal, lighter fluid, etc, and in the Winter, it will sell wood, coal, kindling and firelighters.

 - **Convenience foods.** These include high-quality, chilled, pre-cooked meals for single person households and quick meals for people arriving home late or in a hurry. Such products have helped the recent revival in village shops. The shop will also improve its range of traditional chilled and frozen convenience foods in order to target parents buying supper for children before collecting them from the school.

- **Higher-value products.** Many residents, particularly weekenders, consciously try to support *The Little Shop* by spending a certain amount of money, whether or not they have an immediate need to buy goods. However, we have been told that this often proves difficult because of the lack of interesting goods on sale. What is required is a selection of goods of relatively high-value (above £2), high quality and long storage life, particularly of local origin. Examples would be delicatessen products such as jars of fish soup and preserves.
- **Off-licence.** While an off-licence is not a high-margin business, it is a convenience that will attract other business. We have been strongly advised to include an off-licence in our business plan. There is already an off-licence in Winchelsea, but it has not been widely used for a variety of reasons including its location in the tea room. Unlike the existing off-licence, *The Little Shop* would also be open seven days a week and throughout the year. However, *The Little Shop* would aim to minimise duplication with the existing off-licence and offer its own distinctive selection. We will be talking to the proprietor of the existing off-licence.
- **Off-bakery.** Thought is being given to supplementing the excellent bread that we buy from the Rye Bakery with a small on-site oven to cook frozen rolls, croissants, etc. This type of product might have particular appeal to the weekend and tourist trades.
- **Tourist goods.** These will include traditional gifts such as postcards and craft items such as trugs. The aim is to try to increase revenue from the many tourists who visit Winchelsea. There is greater scope for this since the closure of the sub-post office, which had a gift shop attached. Gifts tend to be high-margin goods.
- **Staff.** Staff will be key to the success of *The Little Shop*. They will be the public face of the shop and an important source of information and advice for the Management Committee. The shop will be run by paid staff, one full-time and four part-time. They have been recruited already. All our staff live in Winchelsea. The full-time member of staff, Mrs Jeanette Stevens, will be manageress. She has experience of running a small shop and currently works as a supervisor in a local supermarket. The other members of staff are Anne Haddock, Siobhan Hart-Jones, Harriet Reilly and Nathan Bligh. Harriet and Nathan will be working at weekends. We believe that our staff will make *The Little Shop* a pleasant and welcoming place, and provide good customer service. Equally, we hope that the shop will be a pleasant place in which to work. We intend to take advantage of the training offered to both the Management Committee and staff by the SRCC and other bodies. One of the Management Committee will take on special responsibility for staff.
- **Pricing.** To the extent that there was a pricing policy in *The Little Shop*, it was cost-plus and ignored competition. In many cases, prices were significantly above or below that in local supermarkets, creating a confusing impression of the shop's competitiveness and reducing profitability. No attention was paid to the margins on goods. In future, the shop will avoid low-margin products for which demand does not justify display space or which create unfavourable price comparisons with local supermarkets. Our target margin is 22%.

- **Displays.** The fittings in the shop used to be second-hand or home-made. Space was used very inefficiently. New fittings will increase display space by more than 25% and their layout has been designed by professional shop-fitters.
- **Debit cards.** Since the closure of the sub-post office in November 2000, there has been no local source of cash in Winchelsea. This is a problem for *The Little Shop*, as people often shop close to where they can draw cash. It was noticeable that business at *The Little Shop* was badly hit by the closure of the sub-post office. We have decided against an ATM for reasons of security, cost and lack of space. Instead, we will install a debit card facility and will consider offering “cash back”. A debit card facility is also necessary for the proposed off-licence.
- **Ordering service.** *The Little Shop* must find ways of attracting second home-owners, given that second homes are such a high proportion of households in Winchelsea. One proposal is to offer a fax and e-mail ordering service. This would be based on a list of goods which could be phoned, faxed or e-mailed ahead of arrival in Winchelsea at the weekend. The order would be boxed and made available for collection after hours on Friday or at the shop on Saturday morning.
- **Opening hours.** Prior to its closure, the shop kept irregular hours and did not open most afternoons. In future, it is proposed to open at 0800 and close at 1300, and then re-open from 1400 until 1600 or 1630. Afternoon opening is required in order to serve parents collecting children from the school. Opening times will be clearly advertised and stuck to. Consideration will be given to late opening in the summer and on one evening each week (eg Friday).

How will the business be organised?

The Little Shop (meaning the business but not the premises) will be owned and managed by the Winchelsea Little Shop Association. The Association is being established as an industrial and provident society (IPS). This is defined in law as a “bona fide co-operative” or a “society for the benefit of the community” established for the purpose of carrying on an industry, business or trade. Societies must be registered with the official who was the Registrar of Friendly Societies under the Industrial and Provident Societies Acts 1965-78 (this role has been subsumed within the Financial Services Authority (FSA) since 1 December 2001). An IPS was recommended by ViRSA as an appropriate structure for a community-owned shop.

An IPS is owned by a group of shareholders. Each shareholder can hold one and only one share. The money paid for a share is the limit of each shareholder’s liability in the event that the society fails. Each share carries one vote, so every shareholder has an equal voice when the running of the society is discussed at general meetings. Shares cannot be bequeathed or sold on, and should therefore be seen as the cost of membership in the society. Shareholders can leave the society at any time, but cannot reclaim their investment. In the event that the society has to be wound up, shares can be redeemed from net assets, but only after every other creditor has been repaid.

An IPS has a constitution known as its Rules. These are quite straightforward. A summary of model rules provided by ViRSA, which will be adopted by the Winchelsea Little Shop Association, is attached at Annex I. Rules are not easy to change. Amendments have to be approved by the FSA. This will ensure that the Association sticks to its mission of running the shop for the benefit of the whole community.

The main legal requirements on an IPS are to maintain a register of members, to produce certified annual accounts and to submit an annual return to the FSA (to whom we have to pay an annual fee).

An IPS was one of a number of possible legal structures considered by the Association. Our criteria were that the structure should be:

- subject to a clear purpose (running *The Little Shop* for the benefit of the whole community) which is not easy to change;
- limited liability for shareholders;
- not-for-profit;
- eligible for public grants;
- democratically organised;
- free of complex or onerous legal requirements.

The advantages of an IPS are that:

- it has a clear purpose which is not easy to change;
- a shareholder's liability is limited to the amount of money paid for his/her share;
- it is not-for-profit: surplus income cannot be distributed among shareholders but must be reinvested in the business or used for the benefit of the whole community; if the business fails, net assets must be used for the benefit of the whole community;
- it is eligible for public grants;
- each shareholder has an equal say in the running of the business;
- the legal and regulatory regime for IPS is straightforward and does not change very frequently;
- the sale of shares and debentures is exempt from the onerous and complex requirements of the Financial Services and Markets Act 2000;
- if the society meets the usual charity criteria, it may apply to the Inland Revenue for charitable status for tax purposes.

The main disadvantage of an IPS is that the registration fee is quite high (£450). A number of alternatives to an IPS were considered and rejected. They are discussed in Annex II and summarised in the table below.

structure	pros	cons
Company limited by shares	<ul style="list-style-type: none"> • limited liability • easy and cheap to set up 	<ul style="list-style-type: none"> • for-profit • votes according to share • complex legal regime • easy to change articles
Company limited by guarantees	<ul style="list-style-type: none"> • limited liability • not-for-profit • easy and cheap to set up 	<ul style="list-style-type: none"> • votes according to guarantee • complex legal regime • easy to change articles • no equity capital
Industrial & provident society	<ul style="list-style-type: none"> • limited liability • not-for-profit • easy to set up • equal voting rights • simple legal regime • difficult to change rules 	<ul style="list-style-type: none"> • expensive to set up
Partnership	<ul style="list-style-type: none"> • simple legal regime 	<ul style="list-style-type: none"> • unlimited liability • for-profit • ineligible for public grants • maximum of 20 partners
Co-operative	<ul style="list-style-type: none"> • simple structure 	<ul style="list-style-type: none"> • legal uncertainty • unlimited liability • for-profit • ineligible for public grants • complex record-keeping
Club	<ul style="list-style-type: none"> • limited liability • simple & cheap to establish 	<ul style="list-style-type: none"> • legal uncertainty • for-profit • ineligible for public grants • members work in the shop
Parish Council	<ul style="list-style-type: none"> • representative • wide powers • tax-exempt 	<ul style="list-style-type: none"> • they cannot be bothered

An IPS is managed on behalf of shareholders by a Management Committee. The first Management Committee of an IPS is usually formed by its founding members, who may co-opt other members. At the first AGM of the IPS, and each AGM thereafter, a new Management Committee is elected by shareholders. The Management Committee of an IPS can have been four and eight people. The members of the first Management Committee of the Winchelsea Little Shop Association are:

Tim Brown
Richard Comotto (Chairman)
Anthony Hill
Katherine Manning (Secretary)
Jack Parker
Simon Taurins
Felicity Youlten

All members of the Management Committee are residents of Winchelsea, except for Tim Brown, who is manager of NatWest in Rye. NatWest will be the bankers to the Association. They have kindly bought a share in the Association and have made a donation of £100.

Responsibility for key management functions have been allocated to specific members of the Association. These are:

finance	--- Tim Brown
marketing	--- Felicity Youlten
premises	--- Jack Parker
sales	--- Richard Comotto
staff	--- Anthony Hill

It is the wish of the free-holder of the premises of *The Little Shop* to lease the building to an individual. The lease will be held by Richard Comotto. He will sub-lease the premises to the Winchelsea Little Shop Association and, in due course, the school/community computer centre committee at the same rent as he pays to the free-holder (and will therefore effectively underwrite the lease). The initial lease will be for a period of three years. This sets the deadline for *The Little Shop* to prove that it can be viable. The Winchelsea Little Shop Association and school/community computer centre committee will have first refusal to buy the premises when the premises of *The Little Shop* are sold by the free-holder or his estate.

Surplus income from the shop will be dedicated initially to three purposes: (1) reinvestment in the shop, if required; (2) the repayment of debentures; and (3) the eventual purchase of the premises. Thereafter, decisions on the use of surplus income will be taken at each AGM.

In order to minimise the tax burden on the shop, the Association will seek recognition from the Inland Revenue as a charity for tax purposes.

Following agreement at the public meeting in Winchelsea on 1 December, an application has been made to establish the Winchelsea Little Shop Association as an IPS. Approval should be received before Christmas. Our application is being “sponsored” by ViRSA. Sponsorship makes the application process simpler and cheaper. The application fee has been funded from the net income produced by the sale of newspaper, magazines, bread and milk which has been run by volunteers since the closure of the shop.

What are we asking from you?

If you wish to help save *The Little Shop*, there are a number of ways you can do so:

- **Join the Winchelsea Little Shop Association.** All that this involves is buying a share in the Association. Each share will cost £10 and will entitle you to one vote at general meetings of the Association. Shares can be bought by anyone aged 18 years or more, or by local organisations (eg Parish Council and Corporation). You do not have to be a resident of the Town. No one can hold more than one share. The Association is seeking the support of at least 50% of the 266 households in Winchelsea before proceeding with its proposals.
- **Make a loan or donation to the Association.** Loans can be made to the Association in any amount. The Association intends to repay loans, but whether it is able to do so depends on the shop producing sufficient surplus income. It is unlikely that interest will be paid on loans (a decision on this will be taken by the first AGM of the Association). Loans will take the form of debentures. These are contracts under which the lender is a preferred creditor in the event that the shop fails and is put into liquidation.
- **Join the Management Committee of the Association.** There is currently a place for one additional member (the management committee of an IPS can have between four and eight members: we have seven members so far). The committee should be as representative as possible of the whole Town, so if you have never served on a committee before, you are probably an ideal candidate. No special skills are required, just the wish to keep *The Little Shop* open. The Management Committee will probably meet every two months.
- **Volunteer to help in *The Little Shop*.** Although staff will be paid to serve in the shop, there are a lot of other jobs to be done behind the scenes and we need volunteers to help with these. In particular, the newspapers have to be sorted out in the mornings (7:30am to 8:00am on weekdays, and 7:15am to 8:00am at the weekend) and we will have to cover staff holidays. Volunteers would also be welcome for an hour or two to help unload and unpack deliveries, fill shelves, help with the cleaning, do the banking, collect produce from local suppliers and so on. We also need help to monitor prices at local supermarkets. If you would be happy to give a couple of hours of your time, regularly or just occasionally, please give your name to one of the Management Committee.
- **Give us feedback on *The Little Shop*.** Once the shop is open, we would welcome your suggestions about what to stock and ideas about how we could improve the way that we run the shop.
- **Use *The Little Shop*.** In the long term, this is the most important thing you can do to keep the shop open. Please buy more than just a daily newspaper. Simply to break even, we need 200 customers to spend an average of £1.36 each per day.

The fact that you have received this document confirms that we have received a commitment from you to buy a share in the Association. You may also have made a commitment to buy a debenture or make a donation to the Association. If you have been waiting for this document before deciding how much to lend or donate to the Association, please let us know your decision as soon as possible.

If you have committed to buying one share, but there is more than one adult in your household, please consider buying a share for each other adult.

Please do not send us any money yet. We will send you a request for payment when we have registered the Association as an IPS.

If you have any questions about this project, or suggestions on how to improve our proposals, please feel free to contact:

- Richard Comotto at Firebrand, High Street (224446 or comottor@cs.com)
- Jack Parker, South Mariteau, Monks Walk (225061 or mariteau@aol.com)

STOP PRESS

As at 17 December, 139 households in the Town (52%) and 3 people from outside the Town have made definite commitments to buy one or more shares in the Winchelsea Little Shop Association. The amount committed in shares, loans and donation was £10,260. Some 30 households have yet to decide how much they will lend or donate.

Annex I

Annex II

Alternative legal structures for the Winchelsea Little Shop Association

- **Company limited by shares.** This is the classic corporate structure. Companies limited by share can be public limited companies (PLCs) if they have share capital over £50,000 or ordinary limited companies (Ltd). The company is owned by shareholders. The size of each person's shareholding usually determines their voting rights. Each person's liability in the event that the company fails is limited to the value of money they have already paid for their shares. It is a for-profit venture and profits are distributed in proportion to shareholdings. As a private venture, it is not eligible for public grants. Companies are governed by the Companies Acts 1985 and 1989. These are complex pieces of legislation and are frequently changed, making compliance difficult and expensive. However, it is easy to change the purposes of a company. The issuance of shares and debentures has to comply with the very onerous provisions of the Financial Services and Markets Act, although registration as a company is straightforward and ongoing requirements (eg filing annual reports) are not difficult or expensive. Tax can be avoided by donating surplus income as Gift Aid to bodies that are regarded as charities for tax purposes.
- **Company limited by guarantee.** This is an alternative to the previous type of structure. Each member's are limited to an agreed amount to be paid if the company fails. This amount can be nominal. However, because it is a guarantee, the commitment does not produce any capital for the firm. Unlike a company limited by shares, a company limited by guarantee is not-for-profit and therefore eligible for public grants. Surplus income cannot be distributed to members, but must be used for the purposes of the company. If the company is wound up, its net assets must be transferred to a charitable institution with similar aims. Companies are governed by the Companies Acts 1985 and 1989. These are complex pieces of legislation and are frequently changed, making compliance difficult and expensive. However, it is easy to change the purposes of a company. Registration as a company is straightforward (a memorandum and articles of association are filed at Companies House) and ongoing requirements (eg filing annual reports) are not difficult or expensive. Tax can be avoided by donating surplus income as Gift Aid to bodies that are regarded as a charities for tax purposes. Companies limited by guarantee are a popular legal structure for community-owned village shops.
- **Partnership.** This is defined in the Partnership Act 1890 as a relationship between persons carrying on a business in common with an intention to earn profits. Partners have unlimited joint and several liability (one for all, all for one). There is a general limit of 20 partners and the partnership is automatically dissolved when a partner dies. As with a co-operative, partnerships are deemed to be private ventures and may not be eligible for public grants.

- **Co-operative.** This term is used widely, but is not defined in English law. This could be a problem. However, the main reasons for rejecting a co-operative was that the liabilities of members are not limited and it is for-profit. Profits are distributed among members in proportion to the value of transactions, which requires very detailed accounting. Moreover, co-operatives are deemed to be private ventures and may not be eligible for public grants.
- **Club.** This is an unincorporated association. It therefore lacks legal status. Profits are distributed among members. Because clubs are not formally established and are for-profit, they are not eligible for public grants. Members' liabilities are limited to the money they have paid for membership. Clubs cannot employ staff, so the shop would have to be run by volunteers. Clubs are however quite popular.
- **Parish Council.** The Local Government Act 1972 conferred many new rights and powers on parish councils. It also abolished all but two of the previous limitations on expenditure. The Local Government and Rating Act 1997 further widened their powers. A parish council may, in order to exercise any of its functions, acquire the ownership or tenancy of land in or outside the parish. It can let land or buildings on any terms. Parish councils do not pay income or capital gains tax. Some Parish Councils have taken an active role in rescuing village shops. However, Icklesham Parish Council has taken little or no interest in local shops and it was felt that they lacked both the inclination or energy to get involved.