Community Shares

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Community Shares Finance Guide



Introduction to the Finance Guide

This guide is for directors, trustees and staff of a co-operative, community benefit or charitable community benefit society. It aims to be an accessible resource to cover all eventualities relating to managing community share capital, i.e. withdrawable, non-transferable share capital in societies.

Financial rules, regulations and best practice for co-operative and community benefit societies are not the same as those for companies. Even financial advisors, accountants and/or auditors may have little or no experience in dealing with societies.

This guide sits alongside several publications which are aimed at practitioners and finance professionals focussed on the formal accounting practice and more technical guidance for societies.

This guide was overseen by the Co-operative and Community Capital Committee at Co-operatives UK, authored by Isla McCulloch at Co-operatives UK with technical input from Andy Woodcock at Acorn Co-op Support, Jim Brown and representatives from the Co-operative Accounting Standards Committee.

Some key resources which will be referenced throughout this document which go into further detail for practitioners and accountants:

- The Community Shares Handbook
- Finance Toolkit
- Society Annual Returns
- Society Audit Requirements
- Charity SORP Information Sheet
  Financial Literacy for Co-operatives (Published by Seeds for Change and Acorn Co-op
- Support)
- FRS102

If you have any questions on this guide, please contact communityshares@uk.coop.

1. Scope of the Finance Guide

Three different types of societies

The scope of this guidance covers the ongoing management of share capital in:

- Co-operative Societies
- Community Benefit Societies
- Charitable Community Benefit Societies.

While there are a lot of similarities in the management of share capital, some of the accounting treatment and reporting requirements are distinct across the three different societies. Care has been taken to ensure any differences where they exist are clearly labelled.

In terms of framing the differences between the three different types of society, the following broad classifications can help us understand the audience and subsequent narrative around financial reporting for the three different types of societies.

- Co-operative Societies – focus is on member benefit
- Community Benefit Societies – focus in on a defined community benefit
- Charitable Community Benefit Societies – focus is on wider public benefit

Best practice

This guidance constitutes the legal requirements for societies and best practice as set out by the Co-operative and Community Capital Committee, a member group of Co-operatives UK. Where things are a legal requirement, the guidance will use the word ‘must’ and where it is recommended best practice, it will use ‘should’.

The Co-operative and Community Capital Committee oversees the Community Shares Standard Mark and the Community Shares Handbook, the kitemark of best practice as applied to public information in relation to a community share offer, this includes the society’s rules, share offer document, business plan and any associated documents. The Community Shares Standard Mark assessment framework is a comprehensive check list of considerations when launching a community share offer.

This guide should be considered alongside these materials, especially if considering further issuances of share capital.

2. Accounting for community shares

Roles and responsibilities

All directors, trustees or Management Committee members of a Co-operative Society, Community Benefit Society or Charitable Community Benefit Society have certain roles and responsibilities.

All societies must have a minimum of three directors and must appoint a secretary who is generally responsible for signing and submitting annual returns on behalf of the society.

Most societies also appoint a treasurer to oversee the society's finances. Regardless of role, all directors have an equal and collective responsibility to oversee a society's financial position, any obligations, and liabilities.

This guide goes into further detail of those responsibilities as they relate to the management of member share capital.

2.1 Annual returns

A registered society must file annual returns with the Financial Conduct Authority (FCA) within seven months of the financial year end. It is standard practice for a society's AGM to be held within six months of the year end, with the draft accounts received by members at that point. Final accounts and any required audit reports can then be filed with the FCA by the deadline.

For clarity, the term 'receive' means for the members to review and ask any questions of the accounts as part of exercising their rights as members. As such, members should have the accounts shared with them in a reasonable time frame ahead of the AGM to provide the necessary time to look over them. The members have no legal requirement to approve the accounts at the AGM. It is the board's responsibility to approve and sign off the final accounts.

Any information submitted on the annual return is available freely to the public on the FCA's Mutuals Public Register.

A society also has an obligation to inform the FCA of any of the following:

- Any change relating to its registered office or name (registered or trading name);
- Any application to amend the society's rules. Amendments are not valid until registered and approved by the FCA.
- All directors of the society during the financial year covered. However, unlike company directors, societies do not need to maintain a live register of directors. The directors report should include all directors who served during the year (and their resignation date if relevant).
- Registration of any charge against its assets as a result of borrowing. There are separate

provisions to register a charge for England and Wales, for Scotland, and for Northern Ireland.

- Submit annual returns (known as the AR30) to the FCA using their paper form or through the Mutuals Society Portal. The paper form can be posted with the accounts, or a pdf copy can be sent by email. The Mutuals Society Portal is usually the easiest way to submit the annual return.

  The annual return is a standard form compromising of the following questions:

  - Confirmation of directors' names, month/year of births – of those who are directors as at the date the form is signed
  - Confirmation no directors have been disqualified to act as a director
  - Any close links held by directors e.g. other directorships or senior positions held.
  - Number of members
  - Turnover
  - Gross Assets (fixed assets plus current assets)
  - Number of employees
  - Share Capital
  - Highest rate of interest paid on shares
  - SIC code
  - Audit option
  - If the society has charitable status
  - If the society is a housing association
  - If the society is a subsidiary or has subsidiaries (and their names)
  - How the society meets the condition for registration as either a Co-operative or Community Benefit Society
  - The final signed accounts together with any accountant's or auditor's report as required

If a Community Benefit Society (with or without Charitable Status):

- An overview of the community benefit delivered by the society
- An overview of how the business of the society delivers those benefits
- A description of the specific community of benefit
- How the society uses any surplus or profit
- Any potential conflicts of interest

If a Co-operative Society:

- An overview of the business of the society
- A description of the members' common economic, social and cultural needs and aspirations
- An overview of how the society's business meets those needs and aspirations
- An overview of how the members democratically control the society
- How the society uses any surpluses

2.2 Annual Accounts

Alongside the annual return form (AR30), a society is required to fill a full set of annual accounts which must be received by members at an Annual General Meeting (AGM).

A society's annual accounts must comply with FRS102. Smaller societies may use the presentation of FRS102 1A which is part of the FRS102 framework. Care should be taken to ensure the accounts are compliant with the Co-operative and Community Benefit Societies Act 2014. Charitable Community Benefit Societies must also ensure they prepare accounts in accordance with the Charities SORP. Societies which are Registered Providers must use the Housing SORP even if they are charitable. Charitable CBSs registered in Scotland must also submit annual returns to OSCR.

Most accounting software will produce company style accounts and make reference to the relevant sections of the Companies Act 2006 so care should be taken to ensure any references to companies or the Companies Act 2006 are removed and replaced with societies and the Co-operative and Community Benefit Societies Act 2014.

For a full list of the key differences between society and company accounts to share with an accountant, please read page 6 of the Finance Toolkit.

For Co-operative and Community Benefit Societies, the profit and loss or income statement should be described as a the 'Revenue Account' and for Charitable CBSs, the profit and loss forms part of the 'Statement of Financial Activities (SoFA)'. A brief overview of the treatment of share capital and interest in the various financial tables is below. Template accounts are also available for Co-operative Societies and Charitable Community Benefit Societies.

Working with a qualified accountant is recommended in the preparation of annual accounts.

Revenue Account (Co-operative and Community Benefit Societies)

Any movements of share capital, including interest paid should not be included in the Revenue Account but treated as equity in the Statement of Changes in Equity (SOCIE) as below.

Dividends paid by Consumer Co-operative Societies are captured in the Revenue Account as part of sales. Dividends paid to employees in a worker co-operative society are wages and should be accounted for under PAYE.

Statement of Financial Activities (SoFA) (Charitable Community Benefit Societies)

Any movements of share capital should not be included as a charitable expenditure in the SoFA and instead be captured in the SOCIE (below).

Payment of share interest can be captured in the SoFA under 'transfer between funds', as illustrated in the template accounts. Income and expenditure must be distinguished between restricted and unrestricted funds as per the Charity SORP.

Balance sheet (Co-operative and Community Benefit Societies)

In a Co-operative or Community Benefit Society, members share capital should be presented in the balance sheet under 'Capital and Reserves'.

Balance sheet (Charitable Community Benefit Societies)

In a Charitable CBS, share capital is a component of unrestricted funds (including designated funds), forming part of the society's total funds.

In Companies, this is often referred to as 'called up share capital' but in all societies should be referred to as 'share capital' or 'members shares' with an explanatory note in the accounts.

Statement of Changes In Equity (All three societies)

It is not an obligation of FRS102 or FRS 102 1A to include a SOCIE, but most societies who have raised finance through community shares or have paid interest on share capital will see some movement in equity during the financial period which will warrant a SOCIE. If there are no movements in equity in the period, other than the revenue account result for the period, then a SOCIE is not required.

The SOCIE should capture the carrying value of share capital at the end of the financial year and any movements throughout the year. The following should be included in the SOCIE:

- The opening balance
- New share capital issued
- Share capital withdrawn
- Shares cancelled (upon death of a member)
- Shares withdrawn and subsequently donated back to the society
- Any interest paid out or credited to members' share accounts
- Any reduction in value of share capital (as per the society's rules)

Tracking these movements in equity can be a burden when it comes to pulling together annual accounts if not managed efficiently throughout the year. See the section below on managing a society's membership/share register on this.

Annual report, also known as the chair's report or trustees' report (all three societies)

There is no legal requirement for any form of words in the annual report. However, the following is recommended as best practice.

The annual report is an opportunity to add narrative or clarification to any movements of members' share capital and share interest, as well as the usual reporting on activities, outcomes and strategy. The report should also state any net surpluses (or losses) of the society and how these have been applied, either reinvested in the society, used for the benefit of the community or donated to other organisations with similar objects.

Additional consideration should be given to any members' expectations as laid out in the original share offer document and business plan i.e. has the society's financial position been in line with projections and has the society been able to meet members' expectations. If the decisions take effect in a future reporting period, then this discussion could be included in a section of 'plans for future periods'.

The position of and ability of the society to pay interest or enable withdrawals (see Sections 3.1 and 3.2) of shares should be articulated, including any discussions or decisions made at AGMs

during the financial year. Directors should consider their approach to enabling withdrawals of share capital. This could be through the designation of unrestricted funds, or the decision to offer new share capital through an open offer to enable existing members to withdraw their shares.

The report should also include any strategic decisions or projects which may require the society to raise additional share capital through another, more specific, offer of shares.

Annual report for charitable community benefit societies and registered social housing providers

These societies need to provide a report that is compliant with the Charities SORP or Housing SORP. The reporting requirements of the Charities SORP are extensive.

2.3 Audit requirements

An audit is an examination of an organisation's financial statements to ensure that there are no material misstatements that might mislead readers of the accounts. Audit requirements for societies are different to those of limited companies so it is important that any appointed auditor or accountant is aware of the requirements under the Co-operative and Community Benefit Societies Act 2014 (CCBSA2014).

Audit thresholds and requirements for societies varies depending on several factors as below.

Most Co-operative and Community Benefit Societies have a rule enabling them to pass a resolution at a general meeting prior to the accounts being finalised, to disapply the requirement for a full professional audit, if, *in the preceding year of account*, their turnover is under £10.2 million *and* their gross assets are under £5.1m.

A Charitable community benefit society cannot pass the resolution to waive the audit requirement if its gross income exceeded £250,000 in the previous year.

A society must have an audit if it is a parent, subsidiary, credit union or Scottish social landlord.

If the society does not require a full professional audit, but their turnover is over £90,000 in the preceding year, they still require an accountant's report submitted with their accounts. This report needs to confirm that the accounts agree with the accounting records, that they are prepared in accordance with the CCBSA2014, and that the requirements for audit exemption have been met. The accountant providing the accountant's report needs to be a registered auditor.

Unaudited accounts, verified by the directors, can be submitted if the turnover does not exceed £90,000.

For more information on whether a society requires an audit or accountant's report, please use the FCA's Audit Decision Tool, or read Society Audit Requirements and Society Annual Returns.

2.4 Reduction of share value

Co-operatives UK Model Rules include a provision for the reduction of share value which are consistent with the Co-operative and Community Benefit Societies Act 2014. Current wording as follows:

"If the Society's Auditors (or any independent qualified accountants appointed for this purpose by the Board) certify at any time that the aggregate of the Society's liabilities plus the amount of its issued share capital exceeds its assets, then (unless in the meantime the excess has been removed) the Board may determine that the amount of this excess, or part of it, shall be apportioned among the Members in proportion to (but not beyond) the amount of the nominal value of the shares paid up and held by each Member.

This apportionment shall be based on the value of the shares paid up and held by each Member at the close of business on the date of such determination. The value of shares held by each Member shall be reduced accordingly, provided that the value of shares held by any Member shall not be reduced below the minimum shareholding as specified in these Rules."

In practice this means that if the value of the Society's liabilities exceeds the value of its assets plus all the share capital issued, a formal business valuation should be conducted either by the Society's Auditors or any independent qualified accountants appointed by the Board for this purpose. The outcome of the valuation could lead to a reduction in share value that will be shared amongst the Members in proportion to the amount of value of the shares held by each Member.

This could mean that the Members do not have any recourse to their shares. It is also a provision of the rule that any reduction does not result in any member holding below the minimum shareholding as specified by these Rules. Those members holding only the minimum shareholding (e.g. £1) would not be affected by the reduction.

In practice, many societies do not write down the value of their share capital unless they are in the process of intentionally winding up and wish to equitably return share capital to members. Most societies will instead in times of hardship suspend withdrawals of capital while working on a business recovery plan to rebuild the value of the business and therefore the share capital.

In the accounts any reduction in share value should be dealt with in the Statement of Changes in Equity. The reduction of share capital should be shown as a transfer from share capital to the revenue account and reflected in the balance sheet accordingly.

If the value of a society's liabilities exceeds the value of its assets, then the society is at risk of insolvency and must take immediate action to address this. Further advice and guidance on this can be found in the 'Societies facing financial strife' guidance.

2.5 Investing in other entities

While a society cannot be registered for the sole purpose of raising share capital to invest in other entities, it is not uncommon for societies to invest in other community share offers as a way of using their surpluses to further their wider aims, objects, and community benefit. Given the long

term, patient nature of community shares, care should be taken with any investments to maintain liquidity and solvency of the society investing.

A distinction should be made between the investment of the society's general reserves or surpluses in another society as above and raising share capital specifically to invest in another entity. In this latter case, it is recommended that the share capital raised should be invested in a way that maintains member control over the terms of the investment. The terms of this share raise would need to be explicit in any share offer document inviting investment.

Further detail on investing in other entities can be found in Section 2.8 of the Community Shares Handbook.

Accounting for investments in another society's shares

Any investment made in community shares in another society should be measured at the transaction price of the shares, i.e. the nominal value of the shares. Any transaction cost should be written off immediately to expenditure since society shares can never be worth more than their nominal value. Any ongoing measurement of the share value should be based on the historic costs less impairment, which is what would be received if withdrawn.

The transaction cost should be accounted for as an impairment in the Revenue Account.

In the rare occasion that shares have been devalued as per the process in section 2.4 above, then they should be measured at the new value.

These shares would sit in the balance sheet as Assets. Whether they are considered Fixed Assets or Current Assets depends on the nature of their withdrawability, and the society's intentions. In the vast majority of cases they are fixed assets.

If they can be withdrawn within the next financial year, they can sit as investments within the Current Assets section of the balance sheet. If they cannot be withdrawn within the next financial year, they should sit as Investments in the Fixed Asset section of the balance sheet. Any notes to the accounts should explain all elements of this investment including the historic measurement, any impairments and any movements between Fixed and Current Assets.

2.6 Group accounts

If a society has any subsidiaries, it must file audited group accounts, as well as the society's own audited accounts, with the annual return. These accounts should provide a detailed annual report on all the activities and outcomes across the society and its subsidiaries, including their direct contributions to community benefit and project delivery.

Group accounts, incorporating the society's own accounts, must include the following financial tables:

- Consolidated balance sheet
- Consolidated revenue account
- Consolidated Statement of Changes in Equity

- Society revenue account
- Society balance sheet
- Society Statement of Changes in Equity

If preparing group accounts, a society can include the figures for the parent society as a separate column. Alternatively, it can prepare a separate set of parent society only accounts. If it prepares two sets of accounts (i.e. group accounts and individual society accounts), both should be submitted to the FCA with the Annual Return (AR30).

2.7 Treatment of grants

Government and non-government grants

The following sections refer to government grants. For non-government grants, the accruals model is not permitted for Public Benefit Entities. Community benefit societies are public benefit entities.

Revenue grants

Under FRS102, unless the society is charitable, there is a choice about the treatment of government grants; the performance model or the accruals model. Under the performance model the grant income is recognised in the profit and loss account, when any performance-related conditions are met. Under the accruals model the grant is spread over the period in which the related expenditure is incurred.

In some instances, grants may have certain conditions attached which affect the accounting treatment. If a grant is repayable if the society does not meet certain conditions, it may be classed as a liability until such conditions are met or the grant is repaid. If the grant has clawback clause or takes security over an asset, it should not be classed as a liability. In this case the accrual method is recommended, but the performance method would also be allowed.

This is illustrated in the example below.

Example (Co-operative or Community Benefit Societies)

A society with a December year end receives a revenue grant of £20,000 on 1 July 2017 to employ someone for the year ended 30 June 2018.

- Under the performance model, the grant conditions might be met when the employment contract is signed. The society could include the whole £20,000 in income in its accounts for the year ended 31 December 2017.
- Under the accruals model the grant should be spread over the period of employment, so the society would include £10,000 in income in the year ended 31 December 2017, and £10,000 in income in the year ended 31 December 2018. As at 31 December 2017, the society would have deferred grant income of £10,000 on its balance sheet.

Capital Grants (Co-operative and Community Benefit Societies)

As with revenue government grants, capital government grants must follow either the accruals model or the performance model. This is illustrated in the example below.

Example (Co-operative and Community Benefit Societies)

A society receives a grant to buy a building for £100,000 in 2017. The useful economic life of the building is 50 years.

- Under the performance model the grant conditions are satisfied when the society buys the building in 2017. In its 2017 accounts it recognises £100,000 of grant income. The building is depreciated over 50 years at £2,000 per annum.
- Under the accruals model the grant income is spread over the useful economic life of the building. The grant is kept in deferred income (creditors) and released to income over the 50 year life of the asset. This means that £2,000 is taken to income each year. At the same time the building is depreciated by £2,000 each year.
- If a society wishes to use surpluses from capital grants to enable withdrawals of share capital, it is recommended to use the performance model rather than the accrual model.

The society should choose which accounting policy it is going to follow and should disclose this in its accounts. The policy should be applied consistently to all grants.

Charitable Community Benefit Societies

Unspent grants are accounted for as part of restricted funds.

Charitable CBSs must comply with the Charities SORP which only permits the performance model for the recognition of both revenue and capital grants (government and non-government). Unless there is a reasonable assumption that the grant will need to be repaid and there no "evidence of the entitlement to the gift", then a charity must use the performance model.

See excerpt below from the Charities SORP:

5.10. Income from donations or grants is recognised when there is evidence of entitlement to the gift, receipt is probable and its amount can be measured reliably. The use of the 'accrual model' option (section 24 of FRS 102) for the recognition of income from government grants is not permitted by this SORP.

5.11. In the case of a grant, evidence of entitlement will usually exist when the formal offer of funding is communicated in writing to the charity. However some grants will contain terms or conditions that must be met before the charity has entitlement to the resources.

2.8 Costs of raising finance

The direct costs of raising loan finance, such as arrangement fees, should be amortised over the period of the loan. This cannot happen with share issue costs because there is no period of issue for shares – shares may or may not be repaid at a future date.

Share issue costs must be debited to reserves when they are incurred, as a movement in the SOCIE. Other general costs associated with share issues, such as developing a business plan,

must be expensed, and cannot be capitalised as fixed assets because their connection to the asset is not sufficiently direct.

2.9 Depreciation and revaluation of fixed assets

All fixed assets, tangible or intangible things purchased to be used by the society to generate revenue over time, must be capitalised in the society's accounts. FRS102 allows for three different methods of accounting for fixed assets. It is important to understand them and apply the right one as it can make a material difference to the overall surpluses of the society and therefore its ability to allow for share withdrawal. The approach taken to depreciation and revaluation of fixed assets should be covered in the withdrawal policy of the society.

Fixed assets must be classified as either "Investment Assets" or "Property, Plant and Equipment" which will determine the appropriate accounting treatment, either the Fair Value, Historic Cost or Revaluation method.

Investment assets are all fixed assets that are used to earn rent or capital gains.

Property, plant and equipment are all assets that are used either primarily for social benefit, in the production or supply of goods and services or for administrative purposes.

Investment assets must be accounted for using the Fair Value method.

Fair Value method

This method is only allowed for Investment Property, or any other investments such as stocks and shares.

The initial measurement of the Investment Property should include all costs associated with the purchase of the asset. This must include:

- The cost of the asset;
- Any legal fees associated with its purchase;
- Any property taxes e.g. Stamp Duty Land Tax, Land and Buildings Transaction Tax or Land Transaction Tax;
- Any transactions costs;
- Any interest on bridging loans for the period required to get the asset ready for its intended use;
- Any other cost that can be directly attributable to its purchase.

Any subsequent or future measurements must be fair value. This must be a market-based valuation, made by a professional valuer. Any changes in the value from last year must appear as an income or expense in the profit and loss account. This could change the retained earnings and profitability of the society and theoretically its ability to finance the withdrawal of share capital.

In order to decide whether a society can use any increases in value to finance share withdrawal, consideration should be given to whether the society can realise that increase in value without affecting the functioning of the society. If it cannot then realise the increase in value as cash,

without affecting the functioning of the society, it cannot use that increase to finance the withdrawal of share capital.

Historic Cost method

This method is only available to property, plant and equipment and intangible fixed assets. It is an accounting choice for accounting for property, plant and equipment between Historic Cost and the Revaluation methods. Whichever method is chosen, it must be applied to all assets in that asset class e.g. buildings, machinery, fixtures and fittings, equipment and vehicles.

The initial measurement of property, plant and equipment is the same as with the investment assets and must include all costs associated with the purchase of the assets.

Any subsequent or future measurements must be at the last book value, less any subsequent depreciation and impairment. An asset must be depreciated to down to their residual value over the course of their useful economic lives. Depreciation can be calculated using straight line or reducing balance methods – the choice based on when the expected economic benefits of the assets occur. If the economic benefits are spread out equally over the life of the assets, then use the straight line method. If they occur largely at the start of the life of the asset, then use the reducing balance method.

Revaluation method

This method is only used for property, plant and equipment and some intangible fixed assets.

The initial measurement of is the same as with investment assets and must include all costs associated with the purchase of the asset.

Any subsequent or future measurements must involve the asset being revalued regularly enough that its value in the accounts does not materially differ from its fair value. The value must be stated in the accounts as its last revaluation, less depreciation since that date.

Any increases in value (unless reversing a previous loss) must be recognised as a gain in an equity account – the revaluation reserve. If it is reversing a previous loss that was recognised in the profit and loss account, for up to that amount it must be recognised in the profit and loss, with the excess recognised as a gain and in the revaluation reserve.

Any reduction in value (unless reversing a previous gain) must be recognised as an expense in the profit and loss. If the reduction is reversing a previous gain, then to that extent it must be shown as a reduction in the revaluation reserve, with any excess recognised as an expense in the profit and loss.

Crucially, as the revaluation reserve is outside the profit and loss and a society cannot realise the value of property, plant and equipment without affecting the operation of the society, societies should not fund the withdrawal of share capital from the revaluation reserve.

3. Managing members' financial interests

Maintaining an up-to-date register of members is an ongoing condition of registration for any society. Societies must maintain an up-to-date register of members and directors. Having a live and up to date membership or share register is also necessary for the preparation of the annual accounts.

The membership register must include:

- Member's name (individual or institutional)
- The member's postal address & electronic address
- Value of any shareholding (number of shares and total value)
- Any other property held in the society (or members loans)
- The date of joining and leaving membership
- Details of a nomination of a beneficiary to receive the members' shareholding (up to the value of £5000) in the event of their death.
- Whether a member is a UK resident (for tax purposes)

It may include:

- Member's date of birth
- Any interest accrued to the share account
- Any interest paid out or due to be paid out in cash/vouchers
- Whether a member qualifies for any investment tax relief
- When share capital is eligible for withdrawal
- Bank account details to enable payment of interest/withdrawals
- Which share offer they have invested in (if more than one)

The director's register must include details of the offices held and the dates they took (and left) office.

Members have the right to inspect a duplicate copy of this register, excluding details of the members' shareholding and property in the society. Societies are not required to file these registers with the FCA.

The membership/share register should be a live, functional document enabling a society to meet its legal responsibilities and maintain relationships and trust with the membership. This can be an Excel spreadsheet for more basic membership registers, but as the number of transactions increase, or need for further information, increases, other options are available.

For a more technical and sophisticated approach to managing a membership/share register on a DIY basis, AirRegister may be a good option. AirRegister is a freely available tool for managing share registers for societies who have issued community shares. AirRegister is hosted on the platform AirTable, is customisable to suit a society's needs and was developed by experienced community shares practitioners, developers, and Third Sector Accountancy. These practitioners may be able to support a society in setting up an AirRegister account and processes. Contact the Co-operatives UK Advice team for more information.

External providers of share registry services

Some organisations provide Share Registry services for societies who have run community share offers. These are very helpful in terms of managing the ongoing financial administration relating to members' share capital. They do not necessarily extend to the ongoing member relationships and engagement strategies outside of the society's legal and financial responsibilities.

- Ethex
- Sharenergy
- Neville Registrars

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3.1 Interest payments

Interest is not a distribution of profits, but a discretionary cost of capital, payable if the society can afford to do so. A society's Board is responsible for ensuring that the society's affairs are conducted in accordance with its Rules, in the best interests of the society and the community it is set up to benefit. Therefore, any decisions on interest payments must consider its upcoming commitments, especially those in the next 12 months.

Setting interest rates

The Co-operative and Community Benefit Societies Act 2014 (CCBS 2014) does not define how interest rates are to be decided, therefore societies should develop a clear, comprehensive Interest Policy to ensure that the agreed process is followed each year.

Setting interest is a complex issue, requiring an overview of the society's current and future needs, which means that the Board needs to consider all the relevant information together with both the financial performance and future business strategy of the society. The Board must focus on creating a financially stable society by considering its upcoming capital needs. If the society will require additional input of share capital, the interest rate could be used to motivate investors to invest further.

A society's Board has the discretion to set an interest rate to pay to investors based on what is affordable looking at profit and considering costs in the next year. Typically, interest rates on community shares range between 1-7%.

The Board must not pay more interest than is necessary to attract member capital that it needs to further the society's objects.

The FCA makes it clear that a society must not pay an interest rate greater than the society's declared maximum rate in its Rules, even if the society has made above expected profits, or has paid below the maximum interest rate in previous years. For more information on setting an appropriate rate of interest when running a share offer, read Community Share Handbook 6.1 Interest on share capital.

The society should be working towards a level of profitability that fulfils its original intention stated in the share offer document(s). If it is clearly unaffordable at financial year end, the Board could set the interest at a reduced rate. A reduced interest rate needs to be presented and explained at the AGM, at which members receive the annual accounts. The Board should not set an interest rate that relies on future trading (unless it has a commercial contract that underpins this, e.g. business activity from energy generation with a fixed income agreement). Rather the Board should carefully consider the society's current financial position and its upcoming commitments each financial year, before deciding on the annual interest rate payable on community shares capital.

If a society is holding more share capital than it needs, an alternative option to reducing the society's maximum interest rate could be that the Board encourages members to withdraw a certain percentage of their shareholdings. A reduction of share capital held by the society will reduce the amount of interest that it needs to pay year-on-year on share capital, which could make the business more sustainable (see Community Shares Finance Guide 3.2 Managing withdrawals).

The Board may also give members the option to choose a lower rate of interest or waive their interest payment completely.

During the Financial Year

If there is a full withdrawal by an individual investor part-way through the society's financial year, then the society needs to record this date so that the interest payment can be calculated when the society's accounts close. The interest payment calculation is subject to the society's policy, e.g. they may choose to calculate on a daily/quarterly basis. The society should have a clearly written policy, so that the process can be easily understood by members.

Once the society reaches its financial year end, it first determines what level of interest payments is affordable, then it can calculate the payments due to be paid on investments held in the financial year that has just ended. This information is presented at the AGM. The interest payments are then made after the AGM.

If a member withdraws their full investment, they can still be paid an interest payment in the following financial year, as this would be calculated on the amount held until the date of withdrawal. The interest is not paid when the withdrawal is made, rather at the set date each year when all other member interest payments are made.

Financial Year End

Preparation of accounts

Section 89 of the Co-operative and Community Benefit Societies Act 2014 obliges a society to submit an annual return to the FCA within seven months of its financial year end.

A society should ensure that it works with an accountant that is well-versed in society

accountancy treatment (this differs from company or charity accountancy treatment).

Accountancy treatment must adhere to FRS102 standards.

Accounting treatment for interest paid

A society should account for any interest paid to members in the financial period in which it is paid out. Interest paid to members is not shown as a liability in the accounts until the interest has been formally presented at the AGM. Once that has happened the interest must either be paid in cash; credited to a member share capital account; credited to a member interest account (in current liabilities); or credited to a voucher account (in current liabilities). At the same time, the Debit should be recorded in equity as described below.

The accountancy treatment of any interest payment is considered a movement of equity and should be accounted for in the Statement in Changes of Equity (SOCIE) or in the Statement of Income and Retained Earnings (SOIRE). While share interest payments are discretionary cost of capital, they should not appear in the Revenue Account (Profit & Loss/Income Statement) as societies account for share interest in the SOCIE. This is because community share interest is inherently connected to ownership via the community shares investment, whereas interest on commercial loans is external, and so should appear in the Revenue Account.

The SOCIE should include:

- Opening balance
- New share capital issued
- Share capital withdrawn
- Shares cancelled (upon death of a member)
- Shares withdrawn and subsequently gifted back to the society (donated to the society)
- Any interest paid out or credited to members' share accounts (for a *Charitable* CBS, this is stated in the Statement of Financial Activities (SOFA), see below).

Interest should be recorded as follows:

- Interest credited to the Members Share accounts should appear as transfer from the Revenue Account to Share Capital (i.e. Dr Revenue Account, Cr Share Capital).
- Interest paid as cash should appear as debit to the Revenue Account (i.e. Dr Revenue Account, Cr Cash).
- Interest paid as vouchers – should appear as a debit to the Revenue Account (i.e. Dr Revenue Account, Cr Vouchers - current liability).
- Interest credited to members interest accounts - should appear as debit to the Revenue Account (i.e. Dr Revenue Account, Cr Current Liabilities).

Using the Statement of Income and Retained Earnings (SOIRE)

The SOIRE is an alternative to using the SOCIE. It should only be used where the only movement on reserves is the payment of share interest. It should not be used where there are additions to or withdrawals from share capital in the year.

The SOIRE is simply an extension of the Revenue Account. After "Profit after tax" there are the additional lines:

- Revenue Account brought forward (i.e. retained earnings)
- Interest paid on shares
- Revenue account carried forward (= profit after tax, plus revenue account brought forward, less interest paid on shares)

See section below for different treatment of *Charitable* Community Benefit societies.

Accounting treatment for Charitable Community Benefit Societies (CCBS)

Please note, there are some differences in accountancy treatment for a *Charitable* CBS (as opposed to a non-charitable CBS).

Interest on shares should be included in the SOCIE and should not be included under the expenditure on charitable activities in the SOFA. The SOCIE should also include details of any new share capital, share withdrawal or donation of shares as this is a movement of share capital (equity).

However, in a year when there is no movement of share capital (no new share equity is issued, there is no share withdrawal nor donation of shares) a SOCIE is not required, and so the share interest can instead be recoded on the SOFA as a transfer between funds.

Please refer to the Charities SORP Information Sheet for Community Benefit Societies, which includes templates to support Charitable CBSs.

Annual General Meeting (AGM)

At the AGM, the Board must present the previous financial year's accounts to members. The Annual Accounts and accompanying Chair/financial report should be distributed to members in advance of the AGM, usually 14 days in advance. At the AGM the members are presented with the annual interest rate set by the Board.

If the society wishes to dis-apply the audit for the next set of accounts, a resolution needs to be passed at the AGM by member vote. Note, dis-applying the audit can only be taken if permissible according to society law audit requirements. (See 'Audit Thresholds', section 3.5 Community Shares Handbook.)

Following the AGM, the interest payments are made to members. There are different methods for paying interest on share capital and this should be explained in the share offer document. Methods of paying interest are detailed below.

The payment of interest is made in the financial year that follows the year in which it was realised, e.g. the interest payment relates to the shareholding held in Year 1 is paid to members in Year 2.

Interest credited to a member's share account

This increases the amount of share capital in the society and improves short-term liquidity. If this is offered, the impact of compounding interest should be considered in the society's forecasts. A society crediting interest to members' share accounts should consider the potential for over-capitalisation and the associated long-term costs relating to interest payments.

Interest credited to a member's interest account

The interest held in this account is payable from the society to the member on request, or at the point of withdrawing the capital on which the interest is paid. It can be a useful means of deferring cash payable to members, while avoiding the compounding effect of paying the interest into the share account. Any funds held by the society in an interest account are liabilities, not equity, as they are funds owed to members, not funds belonging to the society. As a liability, the funds are higher on the hierarchy of capital in the case of dissolution of the society.

Interest paid by bank transfer/cheque to all members

The administrative burden of this should be considered early on, as seeking bank details or writing cheques further down the line can be very time consuming, depending on the number of members. A society should discuss with its bank whether there is a facility for batch payments, so that the society could provide a spreadsheet with all relevant payment details and the bank makes the payments.

Interest paid in vouchers to be spent in the business

This can be a cost-effective mechanism which reduces the cash outlay to the society and encourages future trading. In effect, while a member may spend the value of the interest of the retail price of goods and services provided by the society, the society simply pays the cost price for the item(s).

Vouchers issued will be accounted for as a liability until they are redeemed, therefore it is recommended to include an expiry date on these vouchers. VAT is applicable to goods and services provided and paid for by vouchers, as it is when they are paid in cash.

Tax implications and duty to report to HMRC

Interest on share capital is paid gross of personal income tax unless the member is not a UK tax resident. It is the responsibility of members to include in their Self Assessment Tax Return any interest on share capital paid to them or credited to their share account in the tax year that the interest is paid or credited.

When a society makes a gross interest payment to an individual member of more than £250* of interest or dividend then the society must report this annually to HMRC within three months of the year end, including details of the interest payments made in the completed financial year relevant to the return. TheRS-01 template for submitting interest payment details is available. The return must be sent to HMRC within three months of the end of the society's accounting period, otherwise HMRC is empowered to deny tax relief to the society for the interest payments.

Non-UK residents are paid net of tax. Any tax deductions made as part of this payment need to be declared to HMRC using the CT61 form which is available by request.

There are specific tax implications for US citizens, covered in Section 5.7 of the Community Shares Handbook.

Interest should be declared by a UK tax resident investor to HMRC in the year it is acquired by the

investor, even if the payment is not actualised via a cash transaction from the society to the investor (e.g. it is credited to the share account). The society can advise that the investor should fill in a Self- Assessment Tax Return annually with their interest as reported in their investor statement from the society (interest that is either paid as cash or converted into new share capital).

Share interest income is considered part of the savings allowance by HMRC. Declaring share interest each year avoids a build-up of interest over multiple years, which otherwise could potentially take the investor over their interest income annual allowance. Please refer to HMRC guidelines about tax on savings interestfor details.

If a society is trading and is liable to corporation tax, interest paid on members' shares is tax deductible and can be claimed as such on the society's CT600 tax return. This deduction is allowed where:

- Interest is credited to a member's share account
- Interest is credited to a member's interest account
- Interest is paid by bank transfer/cheque to all members
- Interest is paid in vouchers to be spent in the business

On the society's tax return share interest should be treated as a non-trading loan relationship debit.

*While ITA07/S887 mentions a £15 limit, in practice HMRC have confirmed they only want to see if it if more than £250, as per CTM40525.

Timetable for accounting for interest

Example for a society with a proposed 3% interest rate from Year 2 and proposed withdrawals from Year 3.

YEAR	CBS	Charitable CBS
Year 0	AGM: - Previous year's accounts are received by members. - Agreement to dis-apply audit for following year must be applied if agreed by members, if permissible.	AGM: - Previous year's accounts are received by members. - Agreement to dis-apply audit for following year must be applied if agreed by members, if permissible.

	Community shares invested into the society.	*Community shares invested into the society.*
Year 1	AGM: - Previous year's accounts are received by members. - Agreement to dis-apply audit for following year must be applied if agreed by members, if permissible. Interest payments suspended. Share withdrawals suspended.	AGM: - Previous year's accounts are received by members. - Agreement to dis-apply audit for following year must be applied if agreed by members, if permissible. Interest payments suspended. Share withdrawals suspended.
Year 2	AGM: - Year 1 accounts are received by members. - Agreement to dis-apply audit for following year must be applied if agreed by members if permissible. Financial year end: - Society's Board prepares its annual accounts with input from its accountant (and auditor if applicable). - Interest payment rate set by Board at 3% if affordable – calculated on Year 2 investment amount. No actual payments take place yet. Share withdrawals suspended.	AGM: - Year 1 accounts are received by members. - Agreement to dis-apply audit for following year must be applied if agreed by members, if permissible. Financial year end: - Society's Board prepares its annual accounts with input from its accountant (and auditor if applicable). - Interest payment rate set by Board at 3% if affordable – calculated on Year 2 investment amount. No actual payments take place yet. Share withdrawals suspended.
		AGM:

		- Year 2 accounts are received by members. - Agreement to dis-apply audit for following year must be applied if agreed by members, if permissible.
	AGM: - Year 2 accounts are received by members. - Agreement to dis-apply audit for following year must be applied if agreed by members, if permissible.	
		During the financial year: Year 2 interest paid to members.
	During the financial year: Year 2 interest paid to members.	Share withdrawals permitted if affordable to the society, in line with society's share policy.
	Share withdrawals permitted if affordable to the society, in line with society's share policy.	
Year 3		Financial year end: Society's Board prepares its annual accounts with input from its accountant (and auditor if applicable).
	Financial year end: Society's Board prepares its annual accounts with input from its accountant (and auditor if applicable). Interest payments made during year should be accounted for in the Statement in Changes of Equity (SOCIE). Share capital withdrawal/donation payments should be accounted for in the Statement in Changes of Equity (SOCIE). Interest payment rate set by Board at 3% if affordable – calculated according to the society's interest calculation policy. The interest is calculated on Year 3 investment amount (unless society policy is that previous years' interest is allocated to a member share account and is permitted to compound).	Interest payments made during year should be accounted for in the Statement of Financial Activities (SOFA). Share capital withdrawal/donation payments should be accounted for in the Statement in Changes of Equity (SOCIE). A SOCIE does not have to be prepared if there was no movement in share capital (equity) to report. Interest payment rate set by Board at 3% if affordable – – calculated according to the society's interest calculation policy. The interest is calculated on Year 3 investment amount (unless society policy is that previous years' interest is allocated to a member share account and is permitted to compound).

3.2 Managing withdrawals

There is an expectation for societies to enable withdrawals of share capital. This should be in line with what was indicated in the most recent share offer document subject to the FCA's guidance. Most societies have a fixed suspension period (normally between 2-5 years) before shares can be withdrawn. Societies also retain the right to suspend the withdrawal of share capital in the best interests of the society.

The FCA's guidance states that a society should only allow the withdrawal of shares if:

- It has trading surpluses that match or exceed the value of shares involved and,
- The directors believe that the society can afford to pay its debts taking into account all of its liabilities (including whether it will be able to pay its debts at the date of withdrawal, and for a year after that, any contingent or prospective liabilities), and
- The society's situation at the date of the transaction.

Essentially, this means that a society should not allow for withdrawals if the society is, or could, become insolvent. An important distinction needs to be made between solvency and liquidity. The mere fact that a society has cash to pay for withdrawals does not mean that it is solvent, or that withdrawals can be allowed. Equally, a solvent society with accumulated profits may find itself unable to allow withdrawals because it lacks the available cash to do so. A solvent society should maintain a cash position that allows it to fulfil the terms and conditions of its share capital.

Additionally, members may be liable for the value of their share capital up to one year prior to the society winding up, even if the member has withdrawn their capital and ceases to be a member.

A society can manage its capital liquidity in several ways. It has the powers to set terms and conditions for the withdrawal of share capital in its rules. This usually includes rules that require members to give a set notice period, from one week to one year, of their request to withdraw some or all of their capital; rules that cap the total amount of share capital that can be withdrawn in any one financial year; and rules that allow the society to discount the value of its share capital. In addition, a society can adopt a rule which gives the board the power to suspend withdrawals. This rule is mandatory if the society is to present its share capital as an asset on its balance sheet.

Whichever method of providing for liquidity is used, the society should establish cash balances capable of meeting requests for withdrawal.

There are five main ways in which a society can generate enough cash to enable share withdrawals by members.

All of these methods rely on the society being solvent in the first place. Before issuing community shares, a society should decide which of these methods it will use, and ensure that this is

reflected in its business plan and share offer document. This, in turn, will depend on the starting point of the society, its trading activities, objects and purpose. The methods can be used singly or in combination.

- Raising new share capital: This can be achieved through an open offer, enabling the society to recruit new members and raise new share capital. Open offers work best where the community is already engaged as customers, volunteers, employees, or suppliers, making the invitation to become a member and investor all the more appealing. Existing members can also be encouraged to invest new additional capital.
- Reinvestment by existing members: It is common practice for societies to credit the share accounts of existing members with share interest and/or dividend payments, thereby reinvesting this money in the share capital of the society. Depending on the scale of these payments, this can be a significant source of new capital.
- Redemption from reserves: A profitable society that is accumulating reserves may use these reserves to finance share withdrawals and reduce its liability for share interest.
- Reduction in capital requirements: Some societies, especially those in the community energy sector, plan to reduce their capital requirements over the lifetime of their fixed assets, and to wind up the society at some pre-determined point in the future. In such circumstances, it is reasonable to allow share capital withdrawals in line with the depreciation of the society's fixed assets.
- Replacement with loan capital: Solvent societies that have reinvested reserves into business assets and do not have cash to finance withdrawals may decide to take out loans to provide liquidity. However, whilst they can borrow to provide liquidity, the limit to shares withdrawable must be based on the above methods.

Charitable Community Benefit Societies

If the society is charitable, consideration should be given to the nature of funds held by the charity when considering share withdrawability. Withdrawals should not endanger the charity's ability to spend the money held in restricted funds, which are held for specific purposes only.

Definitions from the Charity Commission website (England & Wales) guide to developing a reserves policy:

Restricted funds: funds subject to specific trusts, which may be declared by the donor(s) or with their authority (e.g. in a public appeal) or created through legal process, but still within the wider objects of the charity. Restricted funds may be restricted income funds, which are spent at the discretion of the trustees in furtherance of some particular aspect(s) of the objects of the charity, or they may be endowment funds, where the assets are required to be invested, or retained for actual use, rather than spent. Restricted funds must not be used to fund withdrawals.

Unrestricted funds (including designated funds): income or income funds which can be spent at the discretion of the trustees in furtherance of any of the charity's objects. If part of an unrestricted income fund is earmarked for a particular project it may be designated as a separate fund, but the designation has an administrative purpose only, and does not legally restrict the trustees' discretion to spend the fund.

3.3 Managing shares upon death

A society's rules should always be the first point of reference in managing shares upon the death of a member.

The only time community shares can be transferred is upon the death of a member. A nominated beneficiary of a member's share capital should be held in a society's membership register. These nomination rights extend to all forms of property in a society, including loans, deposits and shares.

Nomination rights only apply to the first £5,000 of a member's property; any amount above this has to be resolved with reference to the member's probate.

If the beneficiary is already a member of the society, the maximum individual shareholding rule still applies and if it is exceeded, any excess should either be paid in cash or converted into a loan.

The beneficiary may also choose to donate the value of the shares to the society and some societies offer this option to members at the point of investment. For Charitable CBSs, there may be the additional benefit of gift aid on the donation.

If there is no nominated beneficiary, the estate of the deceased member may request the share to be withdrawn in cash. At that point, the directors should uphold that request, if possible, with reference to their withdrawal policy and best practice on ensuring it is in the best interests of the society and the society is not a risk of insolvency.

It is for this reason that it is recommended best practice that no one individual member holds more than 10% of the total share capital to reduce the risk to the society in this situation.

Society shares form part of the estate on death for Inheritance Tax (IHT) purposes. In most instances, it is likely that Business Property relief will be available at 100% so that the shares will not be subject to IHT, depending on the activities of the society.

3.4 Sweat equity

Many new societies are highly reliant on their founder members and volunteers doing unpaid work to help get the enterprise up and running. This is sometimes referred to as sweat equity. There are two options for payment of sweat equity:

Issue shares to the founders

A society can issue shares to its founders to recognise their contribution, provided this is permitted in the rules. However, the issue of such shares would be taxable on the individuals as 'employer related securities'. If such shares are issued they should be recognised in the accounts as fully paid in the balance sheet and as an expense in the profit and loss account. Where these shares have been issued by a society as withdrawable shares, the member can withdraw them and receive their value at a later date.

Agree now to pay wages at a future date

There are a number of ways to account for this which have different tax consequences:

- The society could accrue for start-up costs in the accounts. This would be to recognise that the society has incurred a cost which it will probably have to pay out in the future. Under FRS102 costs must be accrued if they are measurable, are likely to be paid in the future and are the result of a past event.
- If the society, instead of accruing for the costs, credits them to the directors' loan accounts, then for tax purposes, Pay As You Earn (PAYE) tax and National Insurance Contributions (NIC) would have to be accounted for. This is because crediting a director's loan account has been deemed by the courts to be the equivalent of making payment to the directors. The money is effectively immediately available to the directors to draw down.
- If the amount of the sweat equity cannot be measured, or if it is unlikely to be paid to the founder member, then no accrual should be made in the accounts. In this case the accounts should include a note of this contingent liability.

3.5 Dividends

Co-operative Societies can choose to pay a dividend to members which relates to the amount of trade a member has with the co-op over a particular accounting period. These dividends are similar to a loyalty card payment and must be recognised in the revenue account before arriving at operating profit.

The accounting and tax treatment of a dividend payment is related to the trading relationship with the society. For example, if it is based around work, it is classed as an employment cost and must be subject to PAYE, if it is based around purchases, then as a reduction in turnover.

Where the member has earned the right to a dividend that has not yet been paid out, then the value of this must be included in the co-operative's accounts as an accrual.

In practice, it is very rare for societies to pay dividends and raise capital through community shares. For the avoidance of doubt, community benefit societies and charitable community benefit societies cannot pay dividends.

3.6 Annual general meetings

Societies are democratically owned and controlled by their members and general meetings are a method in which members can participate in the society's governance and hold the board to account. Whether the AGM is online, in person or in a hybrid format, the annual report and accounts must be circulated to members in advance and presented at a general meeting.

This is a great opportunity for the society to report to members on the progress of the business

and for members to hold the board to account on decisions made during the previous financial year. Presentation of the annual report and accounts should be accessible and transparent, with any implications for members' capital, dividends and/or interest payments clearly spelt out as not all members may have the financial literacy required to understand a full set of society accounts.

As members are expected to receive the accounts at an AGM, they should be given ample opportunity to review the accounts in a reasonable timeframe ahead of the meeting so they are able to ask any questions of the accounts or find out further information if required.

Key agenda items relating to a society's finances for an AGM:

- Presentation and receiving of the Annual Report
- Presentation and receiving of the Accounts
- Agreement of interest rate
- Appointment of Auditors (or vote to apply the exemption if applicable)

Other useful resources on AGMs for societies:

- Co-operatives UK's AGM Guide (in depth guide)
- How to prepare for your society's AGM (short guide)
- Webinar | How to run your first Annual General Meeting (AGM) - Nov
- Holding an online AGM

4. Policies and processes

This guide does not provide template policies or processes as every society and business is unique but instead lists important considerations for each policy in relation to managing share capital.

Withdrawals policy

Any withdrawals policy must be consistent with:

- The society's rules
- Any share offer documentation or public information (website etc.)
- The FCA guidance and conditions for allowing share withdrawals.

The FCA's registration guidance, says that a society should only allow the withdrawal of shares if "it has trading surpluses that match or exceed the value of shares involved, and the directors believe that the society can afford to pay its debts taking into account all of its liabilities (including whether it will be able to pay its debts at the date of withdrawal, and for a year after that, any contingent or prospective liabilities,) and the society's situation at the date of the transaction".

The withdrawals policy should include:

- The amount able to be withdrawn on an annual basis and/or basis for calculating the amount available (as related to the liquidity and retained earning reserves policy)
- Any notice period required to request withdrawals
- The order and application process for allocating withdrawals (is it first come first served, or is there a window to apply and decisions made at the directors' discretion a specific date)
- Intentions with regards to growth and use of capital

Liquidity policy

A liquidity policy should lay out the society's approach to:

- Maintaining liquidity for share withdrawal
- Calculating working capital requirements
- Dealing with shocks (3-6 months overheads)
- A time period to building up liquidity (if applicable)

Retained Earnings reserves policy

A retained earning reserves policy should lay out the society's approach to:

- Intentions and plans with respect to growth (should reflect share offer document and business plan)
- Any internal investment and capital replacement policy
- How to cushion against future losses (not the same as potential shocks)
- Application of retained earnings through interest and community benefit payments
- Ability to cover share withdrawals

Interest rate policy

An interest rate policy should be consistent with the society's rules and share offer document and should cover:

- The maximum rate of interest payable (either fixed figure or % above base rate)
- A budget and method to calculate the annual proposed interest payments
- A method to ensure affordability of interest rate payments
- Methods for paying interest, such as via bank transfer, registry service, vouchers, additional share capital etc.
- Approach to communicating this policy to members for transparency of interest rates offered at AGMs

Glossary of key terms

Amortisation – Amortisation is another word for depreciation. When costs other than tangible fixed assets are depreciated it is usually referred to as amortisation – for example of intangible fixed assets or loan arrangement fees.

Annual returns – All societies must file 'annual returns' to the FCA within seven months of the society's year end. The annual returns comprise a form and submission of annual accounts.

Assets – Assets are any money, equipment, buildings, stock belonging to the society or any payments owed to the society.

Capital grants – Capital grants are money gifted to an organisation to purchase assets such as buildings, land, equipment etc.

Charities SORP – The Charities Statement of Recommended Practice (SORP) describes how charities are expected to prepare their accounts in line with the Financial Reporting Standards. The Information Sheet published by Co-operatives UK has been developed alongside the SORP-making body and acts as reference.

Community Shares Practitioner - Community Shares Practitioners are accredited by the Community Shares Unit to provide guidance and advice on community share offers and licenced to award the Community Shares Standard Mark.

Community Shares Standard Mark – The Community Shares Standard Mark is awarded to community shares offers that meet national standards of best practice, ensuring offers are clear, honest and transparent.

Compounding interest- Compounding interest is interest that is calculated based on the original investment and any accumulated interest paid on that investment. Any societies that choose to pay interest in additional share capital or by 'adding to their members' share accounts' need to consider the impact of compounding interest.

Condition of registration – A society must continue to fulfil its 'conditions of registration' with the Financial Conduct Authority (FCA). If they fail to do so, they can become 'deregistered' as a Society, become an unincorporated association, and lose their limited liability status. This may have personal consequences for any directors of the Society who may become personally liable for any debts/liabilities of the Society.

Creditors – Creditors refers to any people or organisations that are owed money by the society, or the amounts owed.

Current assets – Current assets are any assets that can be more easily converted into cash in the next accounting period, such as money owed to the society, stock, short term investments etc.

Depreciation – Depreciation is a way spreading the cost of a fixed asset over the period in which it is used.

Dividends – Of the three society types, only co-operative societies can pay dividends to members. This is generally worked out based on an equitable formula and is a legitimate business expense. Net profit and corporation tax are worked out after the payment of dividends. Further guidance on

dividends can be found in the Community Shares Handbook, Section 6.2 ' Distributions in co-operative societies'.

Fixed assets – Fixed assets are any assets that cannot easily have their value converted into cash, such as premises, IT equipment, manufacturing equipment etc.

Housing SORP – The Housing SORP (Statement of Recommended Practice) applies to all registered social housing providers in the UK, including societies, and provides essential guidance on, and interpretation of, accounting standards for the sector.

Impairment – Impairment is a reduction in the value of any assets, including share capital invested in other entities.

Interest (on share capital) – All types of societies can pay interest on members' share capital. According to the guidance, the maximum rate of interest paid has to be declared in advance and be at the lowest rate sufficient to obtain the capital. Further guidance on interest can be found in the Community Shares Handbook, Section 6.1 'Interest on share capital'.

Liabilities – Liabilities are any money owed by the society, either as debt or purchases.

Liquidity – Liquidity generally refers to the availability of cash to pay suppliers, bills, wages etc. as they fall due. It can also refer to the ease with which an asset can be converted to cash.

Nominal value – the 'nominal value' of withdrawable share capital is the price paid for the shares at the time of investment. Community shares cannot increase in value and the majority of the time, shares will stay at their 'nominal value' when they are withdrawn. In rare instances, if the society is facing financial difficulties, shares can decrease in value, so it might be that the value of the share is reduced below the 'nominal value' of the share at the point of purchase.

Over-capitalisation – A society is over-capitalised if members have invested more money than the society needs for its business activities. This can happen if a society raises more capital than it needs, or has reducing capital requirements. This can impact on interest rates if offered. More guidance on over-capitalisation is available in the Community Shares Handbook, Section 2.3, ' Liquidity of withdrawable shares'.

Recourse to shares - A member will have 'recourse to their shares' if the society is able to enable withdrawal their share capital without risk of making the society insolvent. More detail on this is available in the Community Shares Handbook, Section 2.3 'Liquidity of withdrawable shares'.

Registered Provider – Providers of social housing registered with the Regulator of Social Housing are considered 'Registered Providers', this includes societies.

Revenue grants – Revenue grants are money gifted to an organisation to fund revenue expenses such as staff costs, external consultancy, research, marketing spend etc.

Secretary – All societies are required by law to appoint a secretary who is the main person responsible in law for ensuring certain key functions are carried out. The whole board may still be held responsible if these functions are not actioned. More information in Co-operatives UK's ' The Essential Society Secretary' guide.

SIC code – A 'Standard Industrial Classification' code is a structured system in the UK to classify companies or societies main business activities. It is generally a five digit numeric code followed by a description of the activity. Businesses can choose up to four relevant SIC codes.

Smaller societies – A 'small entity' as defined by FRS102 (S382 CA2006) must meet at least 2 of the following conditions:

- annual turnover must be not more than £10.2 million
- the balance sheet total must be not more than £5.1 million
- the average number of employees must be not more than 50

Solvency – Solvency is the ability of the business to meet any long term debts or financial obligations, often calculated by looking at whether the value of a society's assets exceeds its liabilities.

Subsidiary – A subsidiary is any legal entity which is controlled by another legal entity. Subsidiaries are used regularly by charities who require a separate legal entity to conduct certain trading activities. More information on community shares, societies and subsidiaries can be found in the Community Shares Handbook, Section 2.8.2 'Wholly-owned and controlled subsidiaries'.

Investment tax relief – Investment tax relief is sometimes used as a financial incentive encourage people to invest in community shares and allows individual investors (not institutions or businesses) to claim back a percentage of their investment against their income tax liability. There are different conditions attached to different types of tax relief. More guidance is available in the Community Shares Handbook, Section 8.3-8.4, 'Tax treatment'.

Turnover – Turnover is the amount of money received for all sales after removing any sales tax (e.g. VAT), but before deducting the cost of those sales. Also referred to as 'revenue'.

https://www.uk.coop/resources/community-shares-finance-guide-cs

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