

Parliamentary Briefing
February 2014

Co-operative Legislation

About Co-operatives UK

Co-operatives UK is the national trade body that campaigns for co-operation and works to promote develop and unite co-operative enterprises. We have a unique role as a trade association for co-operatives. We work to promote co-operative businesses across all sectors of the economy – from retail and finance where co-operatives are most recognised to key growth areas such as renewable energy, agriculture and education. Together the co-operative economy is worth some £36.7 billion, is owned by 15.4 million adult members in the UK and has grown by nearly 20 per cent since the start of the credit crunch. Co-operatives UK has 75 per cent of the UK co-operative sector in membership.

Purpose of briefing

This briefing is intended to provide MPs and Peers with a concise overview of the legislative reforms for co-operatives that are currently making their way through Parliament. We have long prioritised improvement of the legislative environment for co-operatives as we view this as a prerequisite for growth in the co-operative economy. Naturally we are taking a keen interest in Parliamentary proceedings relating to the legislation, and would like to assure MPs and Peers of the importance of these measures for co-operatives.

This legislation is as follows:

- The Co-operative and Community Benefit Societies Bill (see **part 2** below)
- The Industrial and Provident Societies (Increase in Shareholding Limit) Order (see **part 3** below)
- The Industrial and Provident Societies and Credit Unions (Arrangements, reconstructions and administration) Order (see **part 4** below)
- The Co-operative and Community Benefit Societies and Credit Unions (Investigations) Regulations (see **part 5** below)
- The Industrial and Provident Societies and Credit Unions (Electronic Communications) Order (see **part 6** below)

1 Background

- 1.1 Whilst co-operatives can use any legal form, the vast majority are incorporated as an industrial and provident society (IPS). Whilst this legal form has many embedded qualities that make it well suited for co-operative enterprise, such as democratic member control and member economic participation, it has

often been overlooked by governments and policy makers, and over time the list of required reforms has lengthened.

- 1.2 Since the first Industrial and Provident Societies Act (1965) a whole raft of piecemeal legislation has built up over more than forty years, which now urgently needs consolidating. Because this tangle of legislation has been somewhat ignored, reform has rarely kept pace with the changing needs of co-operatives, especially when compared with how well company law has changed to reflect the needs of privately owned business.
- 1.3 Reflecting a consensus that aspects of the UK political economy needed to be rethought, the 2010 General Election was something of a game changer, with all mainstream political parties including policies supportive of co-operatives and mutuals in their manifestos. Co-operatives UK was delighted to see these commitments carried forward into the Collation Agreement, and given further expression by the Prime Minister in 2012 when he pledged to improve the legal framework for co-operative enterprise. The Co-operative and Community Benefit Societies Bill and accompanying statutory instruments show what can be achieved for co-operatives when broad political support is backed up by firm government action.
- 1.4 Over the past few years we have worked with legal experts, researchers, our members, and HM Treasury, to develop the specific reforms co-operatives require. When HM Treasury formally consulted on the IPS reforms in July 2013 the response from the co-operative movement was overwhelmingly positive, and we reaffirm that support in this briefing.

2 The Co-operative and Community Benefit Societies Bill

- 2.1 This government sponsored consolidation bill will tidy up a whole raft of piecemeal legislation built up over more than forty years by simplifying language, modernising archaic requirements, and by doing away with references to obsolete legislation.
- 2.2 On the request of HM Treasury it was drafted by the Law Commission, with input from Co-operatives UK. Having had a second reading in the House of Lords the Bill is currently awaiting scrutiny by joint committee.
- 2.3 Consolidation is essential in the creation of a more enabling legislative environment. Simpler well-ordered legislation will make it far easier for ordinary people to set up and run co-operatives.
- 2.4 What is more the passing of this Bill will finally see the co-operative sector recognised on the same footing as companies and charities, each of which has had a consolidated act in recent years; and it will serve as an excellent example of this Government's support for co-operatives and the broader social economy.

3 The Industrial and Provident Societies (Increase in Shareholding Limit) Order

- 3.1 This government sponsored statutory instrument will see the individual holding limit on withdrawable share capital in a co-operative society raised to £100,000.
- 3.2 Research shows that difficulty raising finance is a major impediment to the growth of many co-operatives, especially for those in capital intensive sectors. This reform will allow co-operatives to attract more equity investment, and so finance their development in a sustainable well capitalised way without surrendering democratic member control.
- 3.3 This instrument is subject to 'negative resolution'

4 The Industrial and Provident Societies and Credit Unions (Arrangements, reconstructions and administration) Order

- 4.1 This government sponsored statutory instrument makes provision for insolvent co-operative societies to enter into administration.
- 4.2 In allowing for the possibility of rescue this vitally important modernisation puts co-operative societies on a level footing with companies.
- 4.3 This instrument is subject to 'negative resolution'.

5 The Co-operative and Community Benefit Societies and Credit Unions (Investigations) Regulations

- 5.1 This government sponsored statutory instrument grants the FCA, the registrar of co-operative societies, new powers to investigate potentially improper or unlawful behaviour in a society.
- 5.2 This crucial measure helps to level the regulatory playingfield for co-operatives by giving their registrar a power which already exists for Companies House. In doing so it will reinforce trust in co-operative enterprise.
- 5.3 This instrument is subject to 'affirmative resolution'.

6 The Industrial and Provident Societies and Credit Unions (Electronic Communications) Order

- 6.1 This government sponsored statutory instrument will allow co-operative societies to submit electronic copies of registration documents to the FCA. It is a simple measure that brings us into the twenty-first century.
- 6.2 This instrument is subject to 'negative resolution'.

We ask that all MPs and Peers support the legislation in its passage through Parliament. If you feel you require more information about co-operatives and the need for reform of their legislative environment please do not hesitate to get in touch.

James Wright, Policy Officer

james.wright@uk.coop

**Co-operatives UK
Holyoake House
Hanover Street
Manchester
M60 0AS**

www.uk.coop