# Harnessing mutuality for the UK economy

## Policy solutions for mutuals: proposals and impact

**December 2019**

### Why mutuals matter

Mutuals are businesses with purpose. Their distinct approach empowers customers, workers and communities and generates enormous social value. They are a proven, pragmatic tool for people to work together and achieve their aspirations for responsible business, stronger communities, better work and a more fulfilling, sustainable way of life.

With a combined annual turnover in excess of £133 billion, almost 400,000 employees and millions of members, mutuals in the UK already make a significant economic and social contribution. The evidence points to their impressive productivity and efficacy in creating social value, their resilience and their ability to reduce inequalities of wellbeing, wealth and power.

At a time when business as usual is simply not an option, mutuals demonstrate viable alternatives in every market, from financial services and high street retail, to housing, farming and the platform economy.

The more mutuals succeed, the faster we can transition to an inclusive and sustainable economy. Government should have an ambition to make the UK the best place to start and run a mutual.

## 1 Background

1.1 Over the past year representatives of mutuals in the UK (building societies; co-operatives; credit unions; mutual insurers) have worked together and with HM Treasury to identify common barriers to their way of business, and policy solutions that would effectively overcome them. At a Mutuals' Workshop hosted by HM Treasury in July 2019, mutuals representatives and civil servants identified practical policy solutions relating to the corporate framework, capital raising, mutuality and deprivation and tax. At the request of HM Treasury the focus was mainly, but not exclusively, on non-legislative solutions. All the challenges and solutions identified are detailed in the table in Appendix 1.

1.2 This paper firstly sets out four policy solutions that we consider it would be most immediately practicable and impactful for government to take forward. An evidence-based impact assessment is provided for each. These policy solutions are:

- a Mutuals and Co-operatives Impact Assessment (see **part 2**)
- amendments to GOV.UK 'Start a business' pages (see **part 3**)
- Mutual Employees Bonus Scheme (see **part 4**)
- Evidence-led community economic development (see **part 5**)

1.3 In **part 6** we set out the no less critical, but potentially more legislative reliant, issues around capital raising, with an overview of the current challenges, opportunities and potential policy options for supporting mutuals to raise the capital they need.

## 2 Mutuals and Co-operatives Impact Assessment

2.1 Mutuals can experience additional complexities, burdens and barriers because of policy and process oversights. Some of these are a function of the treatment of mutuality as an approach while others are a result of the treatment of their legal forms. For example:

- Programmes to support the development of new businesses with advice and finance, such as Start-up Loans, are not configured with mutual businesses in mind.
- Digital projects to create more seamless connections between GOV.UK, corporate registrar and HMRC- such as Company Accounts and Tax Online (CATO)- tend to exclude mutual societies.
- Action to update and improve corporate law, for example to bring insolvency provision into line with global best practice, only covers company law and does not extend to mutual society legislation.

*A regulatory impact assessment for mutuals*

2.2 As a result of a provision introduced by the Financial Services Act 2012 (new section 138K of FSMA[1]) along with a further clause on corporate diversity introduced in 2016[2], both the PRA and FCA must assess and have regard to the differential impact of any proposed rule as between mutuals and other firms. This seeks to ensure that unsuitable or disproportionate impacts on mutuals are identified up front, not as an afterthought when problems cannot be remedied.

2.3 A similar principle needs to be applied across all Government policymaking, but especially on the formulation of regulatory measures. The general rubrics in this area are set out in the Better Regulation Framework, owned by BEIS' Better Regulation Executive.[3] A useful precedent, providing a workable pattern for such a principle relating to mutual and cooperatives, is the Better Regulation Framework's 'Small and Micro-Business Assessment (SaMBA)' which states :

*"In addition to the large volume of smaller businesses, a number of factors mean that regulatory changes may fall disproportionately on them. As a result the government has committed to considering whether the impacts of regulatory changes will fall disproportionately on them, and whether such businesses could be exempted from regulation, or the impacts mitigated in some way without compromising the policy objectives."*

2.4 Consequently, SaMBs will not be harmed by inadvertent application of unsuitable measures.

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[1] http://www.legislation.gov.uk/ukpga/2012/21/part/2/crossheading/rules-and-guidance

[2] http://www.legislation.gov.uk/ukpga/2016/14/section/20/enacted

[3] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/735587/better-regulation-framework-guidance-2018.pdf

2.5 A parallel, though not identical, Mutual and Co-operative Assessment could readily be added to the framework. This would prompt officials to consider the potential impacts on mutuals and co-operatives from the policy, project, programme, legislation or regulation under appraisal. Including this rubric would reduce the risk that mutuals and co-operatives are not unintentionally overlooked, marginalised, penalised, overburdened or disadvantaged. Appendix 2 suggests an amendment to the Better Regulation Framework.

2.6 This should in turn lead to corresponding changes to the Impact Assessment (IA) template, used to appraise proposals for policy, projects and programmes as well as legislation and regulation.

*Impact assessment*

2.7 The Mutuals and Co-operatives Assessment would benefit more than 10,000 businesses, employing almost 400,000 people, with combined turnover of £133.5 billion.

2.8 Over time, reducing the instances wherein mutuals are unintentionally overlooked, marginalised, penalised, overburdened or disadvantaged would create a more enabling corporate framework for a greater diversity of corporate and organisational forms.

2.9 This in turn would ensure that the corporate framework does more than reinforce a path dependency that reproduces the same approaches to business time and again. This would be very positive impact. The evidence is mounting that an overreliance on business as usual carries significant environmental, economic and social risks.

## 3 Amendments to GOV.UK 'Start a business' pages

3.1 Mutual entrepreneurs can find it hard to identify the most appropriate legal form for their plans and aspirations. The ubiquity of the company legal form and the comparative obscurity of the mutual society legal forms [4] means that it is often the case that founders in the social economy, and those providing them with information and advice, lack a practical understating of all the available options. This contributes to a wider issue that the mutual approaches - creating social value through collective endeavour; sharing ownership and control - are often poorly understood by those who might find them beneficial, and by those who advise them.

3.2 We suggest three changes to the GOV.UK webpages giving information to people starting a business, so that these are more helpful, especially for people exploring their options in the social economy.

*Text amendments*

3.3 Firstly, we suggest simple amendments to the text and links on the 'Set up a business' page. Please see Appendix 2 for the detail of our suggested amendments.

3.4 We also suggest simple amendments to the text and links on the 'Set up a social enterprise' page. Please see Appendix 3 for the detail of our suggested amendments.

*Improving functionality*

3.5 Lastly we suggest a change in the functionality of the 'Finance and support for your business' filtering tool.

3.6 We suggest that it would be beneficial if users could filter sources of finance and support by their relevance to different types of business:

- Only-for-profit
- Social enterprise
- Co-operative and mutual

3.7 Providers would then need to be tagged with reference to their ability to serve the above types of business.

3.8 It may be that few, or indeed none, of the providers currently listed can serve the needs of social enterprises, co-operatives and mutuals. In this case, some new providers may need to be added to the list and tagged appropriately.

*How many founders would benefit from these changes?*

3.9 In 2018 274 new co-operative and community benefit societies were registered. The Community Interest Companies (CIC) Regulator reports over 2,500 CIC registrations each year. The Charities Commission reported 8,775 applications to the register in 2017-

[4] Co-operative society, community benefit society, credit union, friendly society, building society

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3.10 Therefore more than 11,000 new ‘social economy’ entities are incorporated every year. While at present only a small proportion of these are mutual societies, all social economy founders would benefit from clearer and more accurate information about different legal forms and sources of advice and support.

*Avoiding costly and complex conversions*

3.11 It is becoming increasingly common for social enterprises set up as CICs to realise they would be more impactful if they opened their membership to a community and raised money through Community Shares.

3.12 At present the only option is to undergo a costly and complex conversion from CIC to Community Benefit Society (CBS) legal form. This is not a straightforward process and the difficulties converting businesses experience can result in costs in excess of £10,000.

3.13 If social entrepreneurs were given clearer notice at the start of their journey that they need to be a CBS to issue Community Shares, some of these costly and complex conversions could be avoided.

*Helping mutual founders access useful advice and support*

3.14 Evidence suggests that the vast majority of advisers of new businesses lack any practical understanding of mutuals.[5] This means some people can be deterred from pursuing a mutual approach for no other reason than a failure of information, while others persevere but find the process hard going.

3.15 This information failure could be alleviated by GOV.UK having the functionality to point those exploring mutual options in the right direction.

*Cost benefit*

3.16 We envisage that amendments to online information can be undertaken by GOV.UK within its existing resource allocation. The benefits outlined above should therefore be the overriding consideration.

3.17 We recognise that a change to the functionality of an online tool incurs a development cost. But we believe the utility in proving a tool that helps founders find the right advice and support would be worth it.

3.18 It would be very valuable to make the text amendments without changing the filter functionality, but all three changes together would deliver a significant improvement for people exploring their options for starting a business in the social economy.

[5] Alliance Manchester Business School (2018) ‘The Co-operative Business Model: promoting awareness amongst business advisers’

## 4 Mutual employees bonus scheme

4.1 We believe that mutual societies, mutual insurers incorporated as companies and worker co-operatives incorporated as companies, should be able to access a similar tax exemption to companies owned by an employee ownership trust (EOT), exempting the first £3,600 of any annual bonus payment from income tax (but not national insurance contributions).

4.2 This would help mutual societies and mutual companies to attract and retain employees in today's highly competitive market. In would also provide greater scope to reward employees with potential benefits for productivity in the mutual sector.

4.3 Levelling the playing field in this way would also encourage diverse business structures and ownership models in the UK.

4.4 Furthermore, allowing worker owned co-operatives incorporated as societies or companies to access the same tax exemption as EOTs, would remove a perverse incentive for businesses that are already employee-owned to adopt a more complex legal arrangement, in order to access a relief aimed at promoting employee ownership.

4.5 A similar proposal was made in 2015[6] by the Building Societies Association for customer-owned mutuals including those defined under the Building Societies Act 1986, and which might also be applied to various Friendly Societies Acts. Many of the arguments remain. Where this proposal differs is that it is made on behalf of a wider range of mutuals.

*Provision for companies*

4.6 Companies are able to offer tax-efficient remuneration to their employees. Many companies can offer their employees shares with tax advantages such as not paying income tax or national insurance on their value. These tax advantages apply if the shares are offered through the following schemes:

- Share Incentive Plans (SIP)
- Save As You Earn (SAYE)
- Company Share Option Plans (CSOP)
- Enterprise Management Incentives (EMI)[7]

4.7 SAYE and SIP are for all employees. CSOP and EMI are for certain employees at the discretion of the employer. Companies may offer shares outside these schemes but they do not have the same tax advantages. In practice these schemes are inaccessible to the majority of micro and small companies.

4.8 The policy intention behind these schemes was to support and encourage both direct and indirect models of employee ownership as a means of enhancing culture and

[6] Letter of 25 August 2015 to Charles Roxburgh, HMT.

[7] Not open to the financial services sector.

performance and linking reward to business success. The policy intention behind EMI is to allow small but high-growth companies with limited cash flow to attract the talent they need.

4.9 Most importantly, companies that are majority owned by an EOT can award cash bonuses to employees up to £3,600 per employee per year which are exempt from income tax (but not NIC). The policy intention here is to promote employee ownership in line with the recommendations of the 2012 Nuttall Review for government.[8]

*Situation for mutual societies and mutual insurance companies*

4.10 For fundamental structural reasons it is not feasible for these mutuals to issue employees shares under SIP, SAYE, CSOP or EMI and nor is it feasible for them to be owned by an EOT. Thus their employees cannot benefit from tax-advantaged share-based remuneration or a tax relief on bonuses.

*Situation for worker co-operatives*

4.11 There are around 700 worker owned co-operatives in the UK, around 60 percent of which are incorporated as companies, with the remaining 40 percent incorporated as co-operative societies. In both cases, the model establishes worker ownership and control within a single corporate entity, through its rules or articles. [9] This is an established, proven, simple and flexible model for employee ownership. Worker co-operatives are especially suited to the adoption of employee ownership at start-up, early on in a business' evolution and via the conversion of micro/small businesses as part of planned ownership succession. But government offers no tax reliefs to incentivise the adoption of employee ownership via this model.

4.12 Instead, tax reliefs only incentivise use of the EOT model, which requires two or three corporate entities and layers of governance to be created, in a somewhat complex legal structure that is costly to set up and administer. [10]

4.13 Worker co-operatives are left with a dilemma. They can continue with a simple, flexible low cost legal structure, but pay more tax on their bonuses. Or they can adopt a more complex, administratively burdensome legal structure, as they are incentivised to by tax reliefs.

4.14 At the same time, there is no tax incentive to adopt worker ownership at start up or early on in a business' evolution, limiting the growth of employee ownership and shared prosperity.

*Proposal: Mutual Employees Bonus Scheme*

4.15 Through a Budget, government could change Part 4 of the Income Tax (Earnings and

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[8] https://www.gov.uk/government/publications/nuttall-review-of-employee-ownership

[9] See model rules for worker co-operatives

[10] Government's own model documentation and guidance provides a useful overview of the options for employee influence and control in trusts, see here

Pensions) Act 2003 to exempt the first £3,600 of any annual bonus payment from income tax paid to employees of:

- a building society
- a friendly society
- a co-operative society
- a community benefit society
- a credit union
- a mutual insurer incorporated as a company
- a worker co-operative incorporated as a company

4.16 The Mutual Employees Bonus Scheme would be very simple to administer. Eligibility can easily be ascertained. For mutual societies this would simply require checking on the FCA Mutuals Register.

4.17 Mutual insurers are not included in the FCA Mutuals Register, though FCA is obliged to verify that the use of the term ‘mutual’ at inception[11]. For worker co-operative companies, all that is required is to check the published articles of association.

*Impact for mutuals*

4.18 The UK Mutual Economy Report 2019[12] found that mutual businesses in total account for over £133.5 billion income a year and touch the lives of one in three people in the UK. These are important socially valuable businesses.

4.19 We believe there are at least 397,000 employees who conceivably could benefit from this relief.[13] Crucially, the majority of these businesses are not in a position to award their employees bonuses on a regular basis and when they do, the sums are likely to be much less than £3,600 a year.

4.20 The mutual sector does not have a culture of big bonuses and the proposals we have set out are intended to benefit principally front-line and other non-senior staff. We are confident a £3,600 cap would ensure that the vast majority of staff bonuses within our sector would fall fully within the exempt amount. But we would support senior staff being explicitly excluded from the bonus tax exemption if that was felt appropriate.

4.21 The ability to offer a tax free bonus would open up new opportunities to reward employees and so level the playing field in a crucial regard.

*A tax incentive to adopt employee ownership at start-up or as the business evolves*

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[11] HM Treasury sought to introduce a definition of the term Mutual Insurer in the Building Societies (Funding) and Mutual Societies (Transfer) Act 2007, though the current draft is recognised to be imprecise and problematic.

[12] “The UK Mutual Economy Report 2019” by Mutuo and launched by the All-Party Parliamentary Group for Mutuals in April 2019.

[13] building societies 42,500; Mutual insurers over 30,000; co-operative societies, community benefit societies and credit unions over 324,420; worker co-operative companies over 800

4.22 Extending the tax-free bonus to employee members of worker co-operatives would provide a new tax incentive for people to make their business worker owned from start-up or very early in its evolution. This is because the worker co-operative model is more widely used and better suited to these circumstances than the EOT model (see 6.10 and 6.11 above).

*Cost to the Exchequer*

4.23 We are confident that the Mutual Employee's Bonus Scheme would cost the Exchequer less than the EOT and employee shareholding schemes.

4.24 HMRC estimates the cost of income tax and NIC relief for tax advantaged employee share schemes for the 2017-2018 tax year[14] to be £500 million and £305 million respectively. The costs have by and large remained steady from 2003-2004 when the cost of income tax and NIC relief were £415 million and £225 million respectively, apart from spikes in 2005-2006 and 2006-2007. According to HMRC in 2017/18, the number of employees benefiting from SAYE was 120,000, from CSOP, 10,000 and from EMI just 7,000. Accurate figures for SIP are not available.

4.25 There are no comparative public figures for EOTs' cash bonuses, though the number of employees of EOT-owned companies is reported around 200,000.[15]

4.26 Only a minority of the 397,000 employees in mutuals in scope for the Mutual Employee's Bonus Scheme would actually be likely to ever receive a tax free bonus. Most mutual businesses simply will not operate bonus schemes. Where mutuals do use bonuses, these are more likely to be a performance based reward, rather than a profit share, and so will not be paid to every employee. For many mutuals, the ability to withhold a bonus due to poor performance is important. Thus we can be confident that the cost to the Exchequer would be less than that for the EOT scheme and considerably less that the employee shareholding schemes. Indeed the costs would also be substantially less as no NIC relief is proposed.

[14] HMRC Employee share scheme statistics 2017-2018

[15] https://employeeownership.co.uk/wp-content/uploads/EOA-2018-Annual-Review.pdf

## 5 Evidence-led community economic development

5.1 We were encouraged to consider how government could support the growth of mutuals that empower and benefit more deprived communities. We were also challenged to provide evidence that mutuals (co-operatives, community businesses, financial mutuals) can address pressing social issues, particularly those relating to socio-economic disadvantage and deprivation.

*Evidence that mutuals make positive economic and social impacts*

5.2 The table below summarises the positive economic and social impacts of mutuals, supported by evidence. It links these to major social concerns such as insecure work, insecure service provision and inequalities in income, wealth, power and wellbeing.

| Mutual impacts | Social concerns addressed |
|---|---|
| *Business resilience*<br><br>There is robust statistical evidence from official UK datasets, backed up by similar findings elsewhere in the world, showing that co-ops tend to be more resilient than businesses at large. Official data shows co-op are almost twice as likely to survive the first five years of trading as non-co-operative businesses.[16] [17] [18] This can be explained by their purpose and ownership structure dictating long-termism, their function in self-meeting demand and, where worker co-operatives are concerned, the links between democratic control, culture and performance.<br><br>Entrepreneurship can be challenging and risky and is not for everyone.[19] It can be especially daunting and risky for people from disadvantaged backgrounds, who don't have family resources to fall back on and lack access to the networks through which the more privileged often access work and business opportunities.[20]<br><br>Thus the added resilience of the co-operative model can be especially beneficial when the businesses are seeking to provide essential services and/or decent livelihoods in already challenging circumstances. | Insecure work<br><br>Limited good work opportunities in travel to work area<br><br>Insecure service provision<br><br>Limited social, knowledge and economic capitals required to develop successful businesses |
| *Worker control and firm performance*<br><br>There is a broad body of evidence that links strong commercial | Low pay<br><br>Insecure work |

[16] Co-operatives UK (2019) 'Co-operative Business Survival'

[17] Virginie Pérotin (2015) 'What do we really know about worker co-operatives?

[18] Barbara Casu (2015) "An Analysis of the Relative Performance of UK Banks and Building Societies"

[19] FSB and RSA (2017) 'The self-organising self-employed'

[20] JRF (2016) 'Overcoming deprivation and disconnection in UK cities'

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| performance to worker ownership, explained by increased discretionary effort on the part of worker-owners, stronger teams, a unifying culture, greater degrees of trust, more efficient management and easier implementation of decisions.[21] [22] Specifically on productivity, there is evidence suggesting a link between workers sharing democratic control of businesses and enhanced performance. [23] [24] | Economic disempowerment<br><br>Limited good work opportunities in travel to work area |
| *The economic impacts of community-owned assets*<br><br>Recent research by Power to Change into the economics of community ownership of assets has found that the 6,300 community-owned assets in England generate £147 million additional net expenditure in local economies, and 7,000 net additional FTE jobs.[25] | 'Leaky' local economies<br><br>Limited good work opportunities in travel to work area<br><br>Insecure service provision<br><br>Loss of 'community infrastructure' |
| *Worker control and wellbeing*<br><br>Evidence suggests that there are causal links between individual wellbeing and the degree of agency, autonomy, ownership and control people have over their livelihoods.[26] For example, in mutual insurers, 96% of employees are proud of the ethical record and reputation of their employer[27]. | Wellbeing inequalities<br><br>Limited 'economically enabling' social capital |
| *Income distribution in co-operatives*<br><br>Evidence shows that in worker owned firms the dividends of strong performance are shared broadly. They reinvest a larger share of their profits, while executive and non-executive pay differentials are much narrower, compared with other ownership models.[28] Evidence shows that savers with building societies receive more interest than if they had saved with banks[29], and policyholders in mutual insurers and friendly societies | Low pay<br><br>Income inequality<br><br>Gender pay inequality<br><br>'Leaky' local economies |

[21] Employee Ownership Association (2018) 'The Ownership Dividend'

[22] EURICSE (2015) 'Cooperation in Italy during the crisis years'

[23] Virginie Pérotin (2012) 'The performance of worker co-operatives'

[24] Fathi Fakhfakh, Virginie Pérotin, Monica Gago (2011) 'Productivity, Capital and Labor in Labor-Managed and Conventional Firms'

[25] Power to Change (2019) 'Our assets, our future: the economics, outcomes and sustainability of assets in community ownership'

[26] Coad & Binder (2014) 'Causal linkages between work and life satisfaction and their determinants in a structural VAR approach'

[27] AFM Staff survey 2018

[28] Virginie Pérotin (2015) 'What do we really know about worker co-operatives?

[29] Building Societies Association (2019) "Savers £450m better off with building societies"

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|---|---|
| receive considerably higher investment returns than with PLC insurers[30].<br><br>On gender pay, data published in 2018 shows that co-operatives are on average more egalitarian in terms of gender pay than companies overall.[31] | |
| *Access to services*<br><br>Credit unions and building societies help people to access services in ways that might not otherwise be available to them. For example, building societies often focus on supporting first-time buyers and also those looking to borrow into retirement. They also play a strong role in providing children's savings, and have a better record in keeping branches open across the country than the banks.[32]<br><br>Credit unions have a key role in tackling the challenges of high-cost credit (doorstep lenders, payday loans, even loan sharking) typically faced by lower-income households. This was recently addressed, with supporting evidence, in Financial Conduct Authority's July 2019 report[33] *Alternatives to High Cost Credit*, and covered by the Guardian[34] under the headlines *"Expand credit unions as alternative to payday lenders, FCA urges. Non-profit cooperatives should be encouraged to disrupt high-cost lenders, says regulator. "* | Financial exclusion<br><br>Missing markets<br><br>Exploitation by high cost lenders |
| *Supporting the NHS and Welfare State*<br><br>Members of the Association of Financial Mutuals provide financial support to people who are unable to work through ill-health. This helps improve UK productivity, and reduces the burden on the NHS, the Welfare State and employers to the tune of £400 million a year[35]. | Access to healthcare<br><br>UK productivity |

5.3 While there are great examples of mutuals addressing social concerns in very challenging contexts (for example, community-based credit unions), the evidence also suggests that some key types of mutual are under-represented where they could do the most good. For example, Power to Change recently reported that only 18 percent of community-owned assets are located in the 30 percent most deprived neighbourhoods.[36]

5.4 Many communities who could benefit significantly from the increased agency, control and inclusive wealth that mutuals can bring, lack the capabilities, knowledge and economic

[30] AFM Key Facts summary

[31] Co-operatives UK (2018) 'Gender Pay Gap Report'

[32] Building Societies Association (2019) "Reinvigorating communities"

[33] FCA (2019) "Alternatives to High Cost Credit"

[34] Guardian article 23 July 2019.

[35] The mutual sector's contribution to savings in the NHS, the Welfare State, and to employers and individuals, OAC 2017

[36] Power to Change (2019) 'Our assets, our future: the economics, outcomes and sustainability of assets in community ownership'

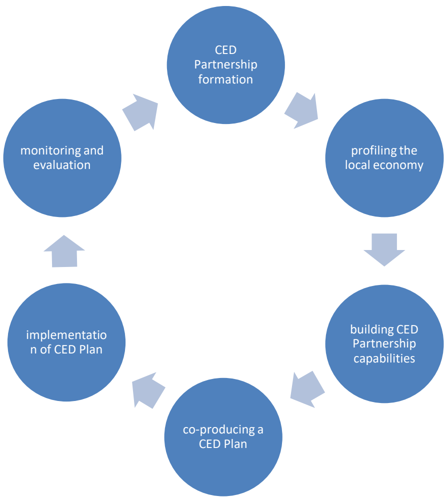
capital to explore and develop these options.

5.5 More positively, there is encouraging evidence that with the right support, communities have the potential to be incubators and platforms for inclusive wealth creation in otherwise challenging circumstances. And community can also be a means through which people gain much needed agency, ownership and control in the economy.[37] [38] [39] [40]

*Community-led economic development*

5.6 Community-led economic development (CED) is a process through which people living, working and running businesses in an area work together through a community partnership to effect change in the economy, so that it better supports their shared aspirations in terms of opportunities, livelihoods, enterprise, local resources, markets and wealth flows. It often involves broadening ownership and control of assets and enterprise in a place, which is where co-ops have a particularly practical function.[41]

5.7 The CED cycle involves: CED Partnership formation; profiling the local economy; building CED Partnership capabilities; co-producing a CED Plan; sourcing money, technical assistance and partners to implement the CED Plan; implementation; monitoring and evaluation. CED Partnerships require constant *facilitative* support across the cycle.




5.8 CED can play a significant role in helping policymakers to overcome the following challenges:

- **Information challenge:** Communities in deprived neighborhoods are stores of extremely valuable information that, through CED, can enrich the evidence-base for inclusive economic programmes.

[37] European Commission (2003) 'Partnership with the Cities'

[38] European Commission (2013) 'Urban Development in the EU'

[39] JRF (2016) 'Uneven growth: tackling city decline'

[40] New York City Council (2018) 'A Report on the Fourth Year of the Worker Cooperative Business Development Initiative'

[41] Co-operatives UK (2017) 'Community Economic Development: Lessons from two years' action research'

- **Legitimacy and efficacy challenges**: CED can engender the trust, participation, take-up and endeavor of people in deprived communities. CED empowers people in deprived communities to effect the change that local leaders cannot.
- **Market challenge:** People acting together, through community and forms of economic co-operation, can give themselves more power and agency in markets and supply chains. CED is the means by which people act together to 'reset' aspects of market reality in their favour.

5.9 CED approaches are spreading across the UK but at present this activity can best be characterized as piloting and action research. Current ongoing examples include:

- **Community Led Local Development:** This is a CED approach is mainly used to deploy EU rural development programmes. It is a bottom-up method of delivering support to communities. The aim is to increase support to local rural community and business networks to build knowledge and skills, and encourage innovation and co-operation in order to tackle local development objectives.[42]
- **Scotland's Improvement Districts:** Scottish Government is supporting traditional 'Business Improvement Districts' to evolve into more innovative, flexible and holistic partnerships of local businesses, community groups and anchor institutions, to deliver the ambitions of local businesses and communities.
- **Empowering Places:** Managed by Co-operatives UK and funded by Power to Change, this programme provides funding and resources to seven community-based 'catalysts' over five years to develop community business with the aim of boosting local economies, working in some of the most deprived neighborhoods in England.

5.10 Below we summarise evidence suggesting that CED can creating fertile conditions for mutuals to form and thrive in these contexts.

*The role of social capital in community business formation in deprived communities*

5.11 The Centre for Local Economic Strategies and Power to Change recently published primary research suggesting that the right interconnections of social capital, agency and knowledge are essential prerequisites in the formation of community businesses in contexts of deprivation. The researchers found that while all deprived communities studied contained above average levels of one kind of social capital - 'bonding capital' – this needs to be augmented to 'bridging' and 'linking' social capitals, which in turn introduce essential skills, knowledge, and economic capitals to the mix.

5.12 The researchers recommend funding initiatives that nurture, mobilise and augment social capital, in order to create more fertile conditions for community businesses to form in

[42] European Commission (2014) 'Community Led Local Development'

challenging circumstances.[43] As set out in **part 3** above, this is a key facet of the CED approach.

*Community-led economic development: two years' action research*

5.13 Between 2015 and 2017 DCLG (as was) funded a CED action research programme that provided a blend of grant and technical support to 71 communities across England, to help them produce a well-supported, dynamic and deliverable local economic plan. Each participating area included at least one ward in the 20 percent most deprived in England based on the Indices of Multiple Deprivation.

5.14 This action research has deepened understanding of how communities can engage with and start to resolve their own economic issues. Mutual solutions featured prominently in the CED Plans, including community ownership of land, commercial real estate and other assets, local business-to-business co-operatives and community businesses. [44]

*New York Worker Co-operative Business Development Initiative*

5.15 New York City Council funds and oversees a programme that supports the formation of worker owned co-operatives. The programme works mostly in New York's poorer neighbourhoods, with significant numbers of minorities and migrants among those founding co-operatives.

5.16 Key to the success of the programme in supporting co-operative formation in challenging circumstances, is the significant role played by community-based 'non-profits' in awareness raising, pre-start facilitation and capacity building within neighbourhoods and communities. Activity to increase awareness of, interest in and adoption of the worker co-operative model, is plugged into wider community-led economic development activities.[45]

*Community Led Local Development*

5.17 Community Led Local Development (CLLD) has mainly been used as an approach to deploying EU rural development programmes. It is a bottom-up method of delivering support to communities that aims is to increase support to local communities and business networks, build knowledge and skills, and encourage innovation and co-operation in order to tackle local development objectives.[46]

5.18 While CLLD has overwhelmingly been used in rural development, the approach has also been trialed in deprived urban contexts as well. The European Commission has reviewed many of these programmes and has concluded that, when done well, CLLD can make a

[43] CLES and Power to Change (2019) 'Building an inclusive economy through community business: The role of social capital and agency in community business formation in deprived communities'

[44] Co-operatives UK (2017) 'Community Economic Development: Lessons from two years' action research'

[45] New Work City Council (2018) 'A Report on the Fourth Year of the Worker Cooperative Business Development Initiative'

[46] European Commission (2014) 'Community Led Local Development'

significant contribution to inclusive growth. [47] [48]

*Cost-benefit analysis*

5.19 CED costs money to do well. While relatively small sums are required to support the establishment of CED Partnerships and the development of CED Plans,[49] significant funding is required to implement these plans. Funding is also required to support the ongoing administration of CED Partnerships across the cycle.

5.20 But crucially, CED is an approach that would be applied to economic development funds that government would be spending anyway. For example, government committed £3.6 billion to the Towns Fund.[50] The costs of incorporating CED as an approach to implementing the fund would be met from within this amount.

5.21 Arguably, CED requires additional governance, administration, consultation, outreach and policymaking, beyond what would be required if funds were deployed via pre-existing channels (LEPs for example). From this perspective, CED adds running costs that reduce the amount of money available for investment. But this is only true to a degree. It is widely acknowledged by government and others that existing structures such as LEPs and local authorities will need to spend money on new capabilities relating to consultation, research, governance and administration, if they are spend economic development funds effectively.[51] [52] To an important extent, adopting CED shifts some of these new costs from one part of the system to another, rather than creating new costs that would not arise otherwise.

5.22 Overall it would probably be marginally more expensive to implement the Stronger Towns Fund (for example) with CED than it would to do so without it. But the evidence summarised here suggests that CED would enable the fund to be spent more effectively, with more transformative impacts, which would more than cancel out the additional running costs.

*Conclusions and recommendations*

5.23 We have presented evidence that mutuals can deliver significant positive economic and social impacts, even in very challenge circumstances. We have also presented evidence demonstrating how community-led economic development can create fertile conditions for mutual action in these circumstances.

5.24 We have also argued that the additional costs involved in incorporating CED into the deployment of economic development programmes would be outweighed by the

[47] European Commission (2003) ‘Partnership with the Cities’

[48] European Commission (2013) ‘Urban Development in the EU’

[49] Co-operatives UK (2017) ‘Community Economic Development: Lessons from two years’ action research’

[50] https://www.gov.uk/government/publications/towns-fund-prospectus

[51] For example, on LEP reform

[52] For example, recommendations made by the House of Lords Select Committee on Regenerating Seaside Towns and Communities

increased efficacy that would result.

5.25 If government wishes to see mutuals playing a significant role in addressing social concerns, in challenging socio-economic contexts, then it should consider how to promote and enable community-led economic development across the UK, prioritising the participation of communities in the most deprived places.

## 6 Access to external capital

6.1 The sources of capital available to mutuals, both at start-up and as mature businesses is limited, and in general terms those options are often ineffective or unattractive. This severally limits the growth options for mutuals and puts them at a competitive disadvantage.

6.2 A core concept in any mutual is that its capital is held in perpetuity on behalf of current and future members. Capital is created at start up by the investments of individual members, and over time this is added to through the retention of profits in the mutual's operations, or via calls for extra funding from members.

6.3 Some mutuals, such as co-operatives and building societies, are able to raise equity from external 'investor-members'. But in doing so they must severely restrict shareholder influence, prevent shareholders from having a claim to the underlying assets of the business and can only offer steady returns without any prospect of a special dividend or capital gains. The returns to investors are therefore generally less attractive in narrow commercial terms, especially compared with traditional equity markets.

6.4 The attraction of holding capital in perpetuity to the advantage of current and future members is that a mutual cannot be influenced by external shareholders, whose priorities may not match the wider interests of the membership. The problem that this traditional approach creates though is that it produces a significant brake on the capacity of the mutual to grow quickly, invest in productivity enhancements or to make acquisitions. The extensive demutualisations in building societies and mutual insurers from the 1980s onwards was a direct result of this limitation.

6.5 This limitation is recognised in public sector mutuals, where government has recently consulted on changes in the definition, structure and funding options for organising emerging out of the public sector.

*Existing options for growing the capital base*

6.6 Mutuals tend to increase their capital base slowly via organic growth. Some have greater scope to raise capital from their members over time and these do so. A small minority are also able to raise capital from external investors. In every case, there is an imperative to prioritise retaining earnings in reserves over making payments to investors.

6.7 According to the Co-op Census 2016, the most common source of capital for co-operatives is their members, coming in the form of member shareholdings, member bonds, subscriptions and donations. But external equity and debt investment, from retail impact investors and institutions, is beginning to play a more significant role.[53] Community benefit societies raise significant sums annually through 'Community Shares'.[54] Large and established co-operative societies such as Midcounties Co-operative are raising equity

[53] Co-operatives UK (2017) 'Co-op Census 2016'

[54] http://communityshares.org.uk/open-data-dashboard

from members. Meanwhile new co-operative societies such as Equal Care are successfully raising start-up equity from 'investor members'.[55]

6.8 In the past, transfers of business have often been motivated, at least in part, by the opportunity to create a stronger capital base (eg Cooperative Financial Services and Britannia Building Society; Royal London and Coop Insurance; Royal London and Royal Liver etc.).

6.9 Mutuals of a certain scale have successfully raised capital via subordinated debt instruments, though these may be expensive, short-term and cannot fulfil the requirements for tier 1 capital for financial mutuals. In recognition of these limitations, Nationwide developed Core Capital Deferred Shares (CCDS) for building societies. These models have been used by Nationwide, Cambridge and Coventry building societies, to raise funds via institutional investors. CCDS can also, in principle be issued at retail level.

6.10 A proposal to develop a similar approach was initiated for cooperatives in 2013, via an attempt to develop Mutual Redeemable Shares. However, practical limitations meant that the proposals were adopted instead by mutual insurers and became Mutual Deferred Shares in 2014, leading to the passing of primary legislation in early 2015. The initiative stalled again at the stage of consulting on secondary legislation, as the potential tax consequences that would result to a mutual issuer, made this method of equity raising unviable. Treasury formally drew a line on this work in late 2018.

6.11 Since 2011, credit unions have been able to raise both initial and growth capital by issuing 'deferred shares'. The option has not been widely adopted to date, and the deferred shares can only be issued to members (though these can be corporate members as well as individuals).

6.12 Employee owned businesses have grown rapidly in recent years, but are restricted in how much equity that can raise from external sources. The Employee Ownership Association produced a report in 2018 seeking to established investment funds that are compatible with the needs of the sector.[56]

*Limitations*

6.13 The options above amount to a very limited source of compatible start-up and growth capital for mutuals, both for financial mutuals in raising regulatory capital, and for social/ community business who don't meet the narrow criteria for tackling deprivation.

6.14 A mutual seeking to raise loss absorbing equity capital would not find a venture capital provider as meeting the virtues they would look for from an investor. These will include:

- Being patient and with an aligned purpose;
- Accepting low returns with limited capital gain;

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[55] https://www.ethex.org.uk/equalcare

[56] https://issuu.com/revistabibliodiversidad/docs/eoa_full_book

- Curtailed rights to voting or board representation; and
- Exit options, largely limited to the medium term.

*Developing future options*

6.15 Amongst the options we have explored are a range of policy ideas and industry initiatives, as summarised in the table below.

| Options for growth | Actions needed | Legislative solution? | Potential impact for mutuals |
|---|---|---|---|
| A shortcoming in many of the approaches being adopted or that have been proposed, is that they rely for creation of new capital, or equity-like injections, from large investors. This means the entry costs are high which in turn makes it difficult for a small mutual to benefit. Ensuring new capital solutions are scalable, and can be attractive to both institutional, and consumer retail, investors would help ensure the approach is more consistent with the ethos of a mutual and its existing capital base, and can be delivered by smaller organisations. | Consider entry requirements for existing capital instruments and how they can be made more proportionate.<br>Understand market demand from smaller mutuals, as well as likely consumer and regulatory responses. | Will depend on flexibility of existing legislation | Widening the pool of potential investors, to include retail consumers, would improve access and reduce the costs of raising new capital. |
| To create a mutual growth fund within the British Business Bank (BBB). Early discussions with BBB has been productive, and they agree that is would be worth exploring a possible fund for mutual equity, subject to a better understanding of the market potential, delivery partners and the available instruments. A separate role for BBB might be to provide institutional support for smaller building societies to collaborate in the joint raising of capital. | Continue to engage with BBB to answer questions about market size and delivery. | No | Better access by building societies and established credit unions to funding on favourable terms.<br>New start platform co-operatives and employee owned businesses can develop effective equity models. |

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| Aligned to the above, the Scottish Development Bank fulfils a similar role to BBB and at this stage is at a more developed stage and potentially also capable at this stage of adopting a mutual growth fund | As above | | As above |
| In May, Nationwide BS won a £50 million grant to help fund its expansion into SME banking, as part of the £775 million programme funded by Royal Bank of Scotland (as a condition of its bailout during the financial crisis). Nationwide is matching the award with its own funding to reinforce its expansion into business banking. Further awards to the sector will help resolve the unmet demand for business banking and loans. | Explore similar solutions to enhance mutual solutions. | No- already working albeit narrowly | New options open to SMEs to borrow money and undertake business banking. |
| The extensive work undertaken by Treasury in support of Mutual Deferred Shares should be resurrected, though this may require correcting legislation. This is likely to require legislative intervention to overcome the intractable position at present (that an issuer of Mutual Deferred Shares would lose the mutual tax status of the entire mutual insurer). We suggest two relatively simple corrections:<br>• The term 'shares' as ascribed to these products is misleading: we suggest the funding is re-titled 'mutuals' deferred capital'.<br>• A phrase should be added to the primary legislation to clarify that the issuing of mutuals' deferred capital has no | Agree with HMRC a solution to problem over tax treatment of deferred capital.<br>Amend legislation. | Would require either change to existing Act via secondary legislation, or new Private Members Bill | By completing the legislative work undertaken to date, the largest mutual insurers would be capable of seeking new capital from institutional investors.<br>A second phase of work might make a deferred capital option available to small mutuals by enabling current members to invest more in their mutual. |

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| impact on the tax status of the mutual. | | | |
| Where we have seen successful programmes by the PRA and FCA to develop new challenger banks, there is scope for a complementary programme to create 'Challenger Mutuals', mutuals that can compete in markets where consumers frequently face unmet demands or a bad deal. Challenger mutuals face a combined problem of high entry costs to markets, and defensive, anti-competitive action by incumbent providers. There is an opportunity for PRA and FCA to combine with the mutual sector, as well as Treasury and the recently launched Impact Investing Institute (III, whose goal is to help people who wish to combine a financial return on their savings with a social purpose). | Engage with PRA, FCA, Treasury and III to establish basis for challenger mutuals. | No- there is a diversity clause written into legislation, though regulators are 'business channel agnostic' | Broadening competition from new entrants in the Financial Services sector. |
| Larger co-operative and community benefit societies are increasingly interested in raising equity in significant amounts from their members and from external mission-aligned investors, including institutions. Some are eager to take advantage of the growing importance of 'ESG' investing in wholesale markets. While withdrawable share capital has proven to be a very effective and flexible instrument for many societies, it has a number of limitations that makes it impractical for some large societies: the £100k limit on what an investor can hold; a degree of uncertainty in capital planning once a fixed term block on withdrawals comes to an end. | Societies would like the option of issuing an equity instrument that is repayable at the option of the society rather than withdrawable at the option of the shareholder. | Yes – primary legislation is required to amend the Co-operative and Community Benefit Societies Act to provide this option. | This investment will support the development of innovative co-operatives in areas such as the platform economy, while also helping more established co-operatives to reinvigorate their relationship with members and invest in their environmental and social impacts. |

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| Co-operative societies do not have the option of adopting a statutory 'asset lock'. Instead they must rely on amendable provisions in their rules to stipulate that capital surplus will be committed to co-operative purpose, rather than being distributed among members.<br><br>For existing societies this increases the risk of demutualisation and can makes asset accumulation and equity raising more risky. It also limits their ability to access social investment. | There is overwhelming support in the sector for giving co-operative societies the option of adopting a provision with statutory force that ensures capital surplus will be committed to co-operative purposes, rather than being distributed among members.<br><br>Many co-operative societies would like a legal guarantee that their capital surplus will be committed to co-operative purpose, rather than being distributed among members. | Yes – primary legislation is required to amend the Co-operative and Community Benefit Societies Act to provide this option. | Non-distributable capital surplus will create more optimal conditions for mission-aligned investment in co-operative societies, by members and external investors.<br><br>This investment will support the development of innovative co-operatives in areas such as the platform economy, while also helping more established co-operatives to reinvigorate their relationship with members and invest in their environmental and social impacts. |

*Benefits to society*

6.16 The nature of options explore above offer a range of benefits to society and with a socio-economic impact, which include:

- Greater financial inclusion
- Action to reduce debt
- More stable provision of products that enhance consumers' capacity to save and invest
- Wider access to borrowing
- More competitive markets
- Reduced inequalities in opportunity, wealth and power
- More productive workforces

*Conclusions*

6.17 We have put forward a range of options that we consider will significantly enhance the availability of capital to ambitious and successful mutuals, as well as to support the creation of new mutuals. Having effective access to capital for well-run mutuals, will enable them to better compete with non-mutuals, and support better outcomes for consumers, employees, communities and society at large. In their absence, existing mutuals will continue to explore options for growth outside of mutuality, or which compromise their mutual ethos, whilst entrepreneurs considering the establishment of new businesses will look outside the mutual sector, for capital models that are more available and attractive.

**Appendix 1: Challenges and policy solutions identified at 10 July Mutuals Workshop**

<table>
<tr><th>Challenge</th><th>Policy solution</th></tr>
<tr><td colspan="2">Strand one: How can we make it easier and more natural to incorporate and operate as a mutual society?</td></tr>
<tr><td>Mutual entrepreneurs can find it hard to identify the most appropriate legal form for their plans and aspirations.</td><td>Mutuals Incorporation Roadmap<br>Create an appropriately signposted tool on the GOV.UK ‘Set up a business’ webpages, to assist with legal form selection for people considering a mutual option.<br>Also add co-operative development practitioners to the filtered list of providers of expertise and advice, perhaps with a new distinct ‘co-op’ tag.</td></tr>
<tr><td>Mutual societies can experience additional complexities, burdens and barriers because of policy and process oversights concerning these forms, on the part of both public and private sector entities.</td><td>Mutuals’ Impact Assessment<br>Adapt the PRA’s impact assessment for mutuals for other policymaking processes and add to the checklist for the Parliamentary Drafters’ checklist.<br>Consolidated Corporate Data Register<br>Consolidate all public corporate data into a single, accessible online register, useable by banks, credit reference agencies etc. with data links to HMRC.</td></tr>
<tr><td colspan="2">Strand two: How can we help mutuals to access compatible equity investment in the amounts they require?</td></tr>
<tr><td>There are limited sources of compatible start-up and growth capital for mutuals, especially in contexts of deprivation, for mutuals that don’t meet social/community business criteria, and for</td><td>BBB Mutuals’ Fund<br>Engage with British Business Bank on evidence-based options for mutual investment<br>Attracting impact investment<br>Engage with the new Impact Investing Institute and DCMS on evidencing social impact in mutuals.<br>Mutuals’ Deferred Shares Act</td></tr>
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| | |
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| financial mutuals raising regulatory capital. | Revisit the Mutuals Deferred Shares Act. |
| The ‘capital-members conundrum’ for new financial mutuals creates significant complexities and uncertainties, deterring new mutual formation. | **Challenger Mutuals programme**<br>With the mutuals sector, co-design and roll out a ‘Challenger Mutuals’ programme. |
| ***Strand Three: How do we encourage mutual innovation to address social concerns?*** | |
| Many communities who could benefit significantly from the increased agency, control and inclusive wealth that mutuals can bring, lack the capabilities, knowledge and economic capital to explore and develop these options. | **Evidence-led community economic development**<br>Through place-based development funds and deals (e.g. Shared Prosperity Fund, Town Deals) invest in the capabilities of all communities, and those in deprived places in particular, and where the evidence suggests the impacts will be positive, assist communities to explore and develop their mutual options. |
| ***Strand Four: What benefits in policy treatment have been introduced around employee ownership that could have a parallel but different application for mutual societies?*** | |
| Employees of mutual societies must pay more tax on their bonuses than is levied on the bonuses and bonus-like inducements for employees who work for | **Mutual employees bonus scheme**<br>Through a Budget, change part 4 of the Income Tax (Earnings and Pensions) Act 2003 to exempt the first £3,600 of any annual bonus payment from income tax paid to employees of:<br>• a building society |

| | |
|---|---|
| shareholder companies and employee ownership trusts. | • a friendly society<br>• a co-operative society<br>• a community benefit society<br>• a credit union |

**Appendix 2: Suggested insertion of a 'Mutuals and Co-operatives Impact Assessment' to the Better Regulation Framework**

In section 2 of the Better Regulation Framework we propose the following insertion:

**2.3 A Mutuals and Co-operatives Assessment (MCA)**

2.3A.1 Mutuals and cooperatives account for [ %] by number of the businesses in the UK, and [ %] by employment, and [ %] by turnover. A number of factors mean that regulatory changes designed for companies may not apply at all, or may not work appropriately, for mutual and cooperatives, due to their distinctive constitutional structure and purpose. As a result the government has committed to considering whether any such measure should be applied, not applied, or applied with suitable modifications , to mutual and cooperatives.

2.3A.2An MCA should be undertaken in a similar manner – mutatis mutandis – as a SaMBA, and the scope of the MCA requirement will also be as set out in 2.3.6 above.

2.3A2 While mutuals and co-operatives using any corporate form are at risk of additional complexities, burdens and barriers because of policy and process oversights, some risk factors are a function of the particular corporate forms mutuals often use – often referred to collectively as mutual societies - which are different from the company corporate form. The table below lists these mutual society corporate forms and summarises their key distinctive features.

| **Corporate form** | **Act of incorporation** | **Responsible government department** | **Registrar** | **Distinctive features** |
|---|---|---|---|---|
| *e.g.co-operative society* | *Co-operative and Community Benefit Societies Act* | *HM Treasury* | *Financial Conduct Authority Mutuals Team* | *Limited liability*<br>*Legal personhood*<br>*Must have a co-operative corporate purpose to meet the common needs/aspirations of its members*<br>*Withdrawable share issues fall outside of FSMA regulated activities and financial promotions regulations*<br>*Etc...* |

## Appendix 3: Amendments to GOV.UK 'Set up a business' page

Below we suggested amendments to www.gov.uk/set-up-business.

### Set up a business

What you need to do to set up depends on your type of business, what your aims are, where you work and whether you take people on to help.

### Register your business

Most businesses register as a sole trader, limited company/society or partnership.

### Sole traders

It's simpler to set up as a sole trader, but you're personally responsible for your business's debts. You also have some accounting responsibilities.

Find out more about being a sole trader and how to register.

### Limited companies/societies

If you form a limited company or society, its finances are separate from your personal finances, but there are more reporting and management responsibilities.

To set up a company, you can ~~Some people~~ get help from a professional, for example an accountant, but you can also set up a company yourself.

If you are starting a social enterprise, you may find it advantageous to form a special type of company called a community interest company, or a community benefit society, or a co-operative society. Find out more about setting up a social enterprise [Link to improved https://www.gov.uk/set-up-a-social-enterprise]

If you are establishing a community business or any other kind of co-operative, you may find that forming a co-operative society or a community benefit society is more advantageous than forming a company. You can find expert help on setting up a community business, co-operative or other type of mutual here [either A) link to The Hive website https://www.uk.coop/the-hive/, or B) link to an improved GOV.UK 'Finance and support for your business' page]

## Appendix 4: Amendments to GOV.UK 'Set up a social enterprise' page

Below we suggested amendments to www.gov.uk/set-up-a-social-enterprise.

### Setting up a social enterprise

~~You must choose a business structure if you're starting a business that helps people or communities (a 'social enterprise').~~

If you want to set up a business that has social, charitable or community-based objectives, you can set up as a:

- limited company
- charity, or from 2013, a charitable incorporated organisation (CIO)
- co-operative or community business [change link to https://www.uk.coop/the-hive/]
- community interest company (CIC)
- sole trader or business partnership

If you're setting up a small organisation like a sports club or a voluntary group and do not plan to make a profit, you can form an 'unincorporated association' instead ~~of starting a business.~~

### Community interest companies (CICs)

A CIC is a special type of limited company which exists to benefit the community rather than private shareholders.

To set up a CIC, you'll need:

- a 'community interest statement', explaining what your business plans to do
- an 'asset lock'- a legal promise stating that the company's assets will only be used for its social objectives, and setting limits to the money it can pay to shareholders
- a constitution - you can use the CIC regulator's model constitutions
- to get your company approved by the community interest company regulator - your application will automatically be sent to them

The CIC regulator has guidance on setting up a CIC.

**Please note:** If you plan to raise money through Community Shares, you will need to incorporate as a Community Benefit Society or a Co-operative Society. A CIC cannot raise money through Community Shares.

### Set up a CIC online

Register your CIC online with Companies House.

It costs £27.

You'll need to create a Government Gateway user ID and password for your company. You cannot use your personal Government Gateway ID.

### Set up a CIC by post

Use the forms from the CIC regulator to register a CIC by post.

## Community Benefit Societies (CBS)

A CBS is a corporate entity which allows people to work together and pool resources in order to benefit the community. It involves sharing ownership and control of the business through membership.

To set up a CBS you'll need:

- a clear idea of which community (or communities) you aim to benefit and how your business activities will benefit this community (or communities)
- a clear idea of who the members of the CBS will be and how they will participate in and contribute to the business
- Rules covering the purpose, governance and finances of the CBS
- To register with the Financial Conduct Authority Mutuals Team – https://www.fca.org.uk/firms/register-mutual-society

CBSs can adopt a statutory asset lock very similar to the one used by CICs.

**Please note:** If you plan to raise money through Community Shares, you will need to incorporate as a CBS or a Co-operative Society. Contact the Community Shares Unit to find out more - http://communityshares.org.uk/

**Please note:** It is possible for CBSs to secure charitable status from HMRC, if they have charitable objects.

The FCA Mutuals Team has information on registering a CBS https://www.fca.org.uk/firms/register-mutual-society

You can also access specialist support to set up a CBS through The Hive [https://www.uk.coop/the-hive] or the Bright Ideas Fund [https://www.powertochange.org.uk/get-support/programmes/community-business-bright-ideas/] (England only).

## Co-operative Societies

A Co-operative Society is a corporate entity which exists to meet the common needs and aspirations of a group of people ('members') who democratically owned and control the business/organisation. To register a Co-operative Society you'll need:

- A clear idea of who the members of the co-operative will be, what their common needs and aspirations are, and how these will be met through the business of the Co-operative Society
- Rules governing the purpose, governance and finances of the Co-operative Society
- To register with the Financial Conduct Authority Mutuals Team – https://www.fca.org.uk/firms/register-mutual-society

Co-operative Societies can raise equity from members and external investors, subject to certain restrictions. Co-operative Societies can raise money via the same route as Community Shares.

**Please note:** Co-operative Societies cannot adopt a statutory asset lock but can adopt a very strong asset lock in their Rules.

**Please note:** Co-operative Societies can be social enterprises

**Please note:** Co-operative Societies are legally prohibited from existing primarily to generate returns for investors.

**Please note:** Co-operative Societies can distribute profits to their members but must do so in proportion to their contribution to, or participation in, the co-operative, not their shareholding.

The FCA Mutuals Team has information on registering a Co-operative Society https://www.fca.org.uk/firms/register-mutual-society

You can also access specialist support to set up a Co-operative Society through The Hive [https://www.uk.coop/the-hive]

## Further information

Get advice and case studies from Social Enterprise UK, Inspire2Enterprise and UnLtd or download guidance on business structures for social enterprises.

For advice on setting up a co-operative or community business go to The Hive [https://www.uk.coop/the-hive]

Find out about legal forms for social enterprise.

There are also opportunities to invest in local enterprise with community shares [insert http://communityshares.org.uk/] or to bid to run a local service