

# Community Benefit Society

*This guide sets out the main legislative and regulatory information to be aware of when setting up a community benefit society.*

*For a comprehensive guide to the range of legal structures available to those setting up a co-operative, please consult our [Simply Legal publication](#).*

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## **Societies are corporate bodies registered under the Co-operative and Community Benefit Societies Act 2014 (CCBSA2014).**

CCBSA2014 came into force on 1 August 2014 and is applicable to societies registered or seeking registration in England, Wales or Scotland. It replaces the industrial and provident society legal form with two new legal forms, a co-operative society; and a community benefit society. CCBSA2014 refers to any society registered under the previous Act (the Industrial and Provident Societies Act 1965) as a registered society or a pre-commencement society. Unless the context requires otherwise, in this guide we use the term 'societies' to refer to all societies registered prior to or after the 1st August 2014.

Societies registering and operating in Northern Ireland are still subject to the Industrial and Provident Societies Act (Northern Ireland) 1969. At the time of writing the legislation is currently under review and is due to be updated in 2016. For more information see the [Department of Enterprise, Trade and Investment website](#).

To qualify for registration under CCBSA2014, an organisation should be carrying on 'an industry, business or trade. (Section 2.1, CCBSA2014) and meet the condition of registration as either a 'co-operative society' or a 'community benefit society'.

The community benefit society legal form is common among housing associations and other forms of voluntary and community sector activity where the emphasis is to benefit a wider community rather than the society's membership. The society may be the community at large or a defined community, provided that this defined community does not inhibit the benefit to the community at large. Most recently, the model has been popular among organisations seeking to galvanise local communities through ownership of community assets, such as pubs, community energy and even piers via a community share offer through the use of withdrawable share capital. For more information on the use of withdrawable share capital see the Community Shares website. [link to <http://communityshares.org.uk/>]

Currently, community benefit societies can apply to HM Revenue & Customs for exempt charity status (or if registered in Scotland directly with OSCR or in Northern Ireland directly with the Charity Commission for Northern Ireland).

Societies are administered by the Mutual Societies Registration Section of the Financial Conduct Authority (FCA). The governing document of a society is known simply as the 'rules'. Societies pay an annual fee to the FCA (called the 'periodic fee'), the amount of

which varies depending on the assets held by the society and currently (2015) ranges from £55 - £425.

The society legal form is generally more suited to socially motivated and co-operative organisations in that there are fewer administrative and legal requirements compared to those for private companies, although societies are required to file an annual return and their accounts to the FCA. This legislation is generally less complicated, putting more trust in the directors to act 'in good faith.' Similar to companies, provided certain requirements are met, societies may not be required to have an audit. .

Registering a society using a free draft (bespoke rules) can be fairly expensive and it also tends to be slower than registering a company, as the FCA examines the rules carefully in the light of the Act and makes the final decision about which societies may be registered. Using 'model rules' (standardised governing documents which have been previously approved by the FCA) can reduce the registration cost and timescale. These must be presented through a sponsoring body but can sometimes be too restrictive. You can obtain a list of sponsoring bodies from the FCA. Co-operatives UK is a sponsoring body and has several sets of model rules available. For more information see our website. [link to [www.uk.coop/developing-co-ops/model-governing-documents](http://www.uk.coop/developing-co-ops/model-governing-documents)]

A positive aspect of the registrar's role in checking the rules is that any future amendments must also be approved by them. They may refuse any planned amendment that they believe goes against the founders' original aims, potentially giving greater protection to the principles upon which an organisation has been set up.

At least three members are needed to register and maintain a society (unless all members are societies in which case only two are needed). The minimum age limit for governing body members of societies has been recently reduced from 18 to 16. However, if a society's rules still refer to the age limit of 18, the rules will prevail.

The society form is less well known than the private company and it is not uncommon for accountants, banks and funders not to recognise or fail to understand its corporate status.

The society form is particularly appropriate for organisations wishing to raise capital from the public as it has several special attributes that make it different to companies in this regard, these are:

**enshrined democracy and protection of members' rights** - whilst it is possible to state a company should be one member, one vote this can be overturned by the members. A society (unless a secondary co-operative) has to be one member, one vote regardless of the number of shares owned. In a society, members have the right to appoint and dismiss directors and determine the affairs and rules of the society;

- **withdrawable share capital** - societies have the option of issuing withdrawable share capital. This type of share is withdrawable by the member, subject to any conditions stated in the society's rules. There is no requirement to specify an amount

of share capital upon registration. Societies have some exemptions from the Financial Services and Markets Act (FSMA 2000), including exemptions covering the approval of financial promotions, which can reduce the cost of a share issue. Withdrawable share capital is nevertheless risk capital and, despite the exemptions, the FCA will expect a society to provide appropriate information regarding this risk to potential investors. For more information on the use of withdrawable share capital see: <http://communityshares.org.uk/>;

- **limits on shareholding** - all members must hold at least one share in the society. Currently shareholding for individuals is limited to £100,000, but there is no limit to the size of shareholding held by another society;
- **limits on share interest** - the interest payable on shares must be limited to what is "necessary to obtain and retain enough capital to run the business". Those people investing in societies usually do so for socially motivated or philanthropic reasons rather than for the prospect of a financial return; and
- **asset lock** - under CCBSA 2014 a community benefit society can 'lock' its assets. This means that upon dissolution the assets cannot be shared amongst the members, rather they must go to another asset locked organisation(s) with similar objects (please see chapter 7.2 of this guide for further details).