

**Response by the Social Enterprise Coalition to HM Treasury  
Proposals for a Legislative Reform Order for Credit Unions and  
Industrial And Provident Societies in Great Britain.**

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**The Social Enterprise Coalition's response to HM Treasury Proposals for a Legislative Reform Order for Credit Unions and Industrial And Provident Societies in Great Britain.**

1. The Social Enterprise Coalition (the 'Coalition') welcomes the opportunity to respond to HM Treasury Proposals for a Legislative Reform Order for Credit unions and Industrial and Provident Societies in Great Britain.
2. The Coalition was established in 2002 as the national voice of social enterprise. Social enterprises are businesses with primarily social or environmental objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners. The Coalition represents a wide range of social enterprises, umbrella bodies and networks, with a combined membership reaching over 10,500 social enterprises. These include cooperatives and mutuals, housing associations, leisure and football supporter's trusts, community enterprises, development trusts and Social Firms. Social enterprises in the UK generate more than £27billion in turnover, and contribute more than £8 billion to GDP per year. In preparing this response the Coalition consulted widely with its members.

**Q1. For Section 1 Orders: Do you think the proposals will remove or reduce burdens as explained? For Section 2 Orders: Do you think the proposals will secure that regulatory activities will be exercised so that they are transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed?**

3. The Coalition believes that the Legal Reform Order will go some way to removing the administrative burdens and barriers to competition for credit unions and industrial and provident societies (IPS). But the proposals do not quite go far enough and there is a need for further legislation to adequately address all the burdens and barriers facing these organisations.
4. The Coalition agrees that there is a need to increase the limit of share capital. Proposal A2 addresses this need to some extent but does not establish a long term approach to the issue. The Treasury could use negative resolution to raise the limit of withdrawable shares and establish an automatic review period where this could be increased.
5. Also there are methods by which more than the £20000 limit on share capital can be generated through the use of larger organisations joining IPS as members. By promoting such relationships, as in between Local Authorities and IPS the Government can address the capital investment needs of many IPS without having to use the Reform Order to determine limits of transferable shares
6. The proposal for increasing the limit on fees for accessing members rules is needed to address the cost that IPS incur in providing the rules. The new £1 fee does not reflect the true cost of producing a society's rules, or the effects of inflation on incomes. A fee of £5 would be more representative of these costs.

7. A process for the dissolution of dormant societies is needed to reduce the burden on members, but there appear to be no safeguards to prevent the risk of the dissolution of non-dormant IPS. As a result there is concern that without these safeguards this proposal could be detrimental to the sector. There is a burden on the registrar of IPS in keeping an up to date register. There needs to be a procedure to address this burden.
8. Proposal A5 would successfully remove a burden on IPS which is detrimental to the parity of administrative burden between IPS and private businesses.
9. The Coalition supports Proposal A6 to remove the requirement to audit interim accounts to reduce the burden on IPS. Equally the processes should be aligned with those of companies as opposed to Credit unions to meet the requirements of the sector more appropriately.
10. The Coalition agrees with Proposal B1 and concurs that this will not increase the burden on the Credit unions. We believe that the ceiling of 1 million members of geographical common bonds is too restrictive, although for employment and associational common bond based credit unions this is ceiling is appropriate.
11. The Coalition agrees that the restrictions on the proportion of non-qualifying members limits the potential growth and of credit unions. By removing this restriction the ability of credit unions to set their own rules in a transparent way is still maintained while allowing members to remain once they stop meeting qualification criteria.
12. Proposal B4 is not proportionate as it limits greatly the opportunity for credit unions to provide services to a wide range of potential customers. The proposals should be altered to allow the inclusion of incorporated organisations to be members and receive services, as this will apply to the range of charities, voluntary organisations and social enterprises.
13. Also the choice on whether deferred shares or withdrawable shares are issued to bodies corporate applying for membership can be placed in the hands of credit union membership to provide an accountable and transparent means to limit the influence of the large corporate body over the credit union. This will allow the credit union to deliver services to a large organisation if it so wishes and to limit membership to only deferred shares through the transparent use of its rules.
14. The coalition believes that the ability to attach shares should be based with directors to ensure that this is a proportionate response. At present for credit unions to retain this ability they would have to get members to agree to a change in the rule book. This is not proportionate response for the issues and therefore the Coalition opposes proposal B7.

**Q2. Do you have views regarding the expected benefits of proposals as identified in this consultation document and addressed in the partial impact assessment attached at Annex A? Please provide empirical evidence of any costs or associated benefits.**

15. The expected benefits of less regulation and achieving parity between IPS and private businesses are clearly laid out. As previously stated IPS reforms should seek to achieve parity in terms of administrative burdens with a private company and this needs to be made clear.

**Q3. Is there any empirical evidence that you are aware of that supports the need for these reforms please provide here.**

16. There is regular feedback and communication from members and partner organisations of the Coalition which suggests the need to modernise IPS and credit union regulation to improve the ability of these organisations to compete fairly in the commercial environment.

**Q4. Are there any non-legislative means that would satisfactorily remedy the difficulties, which the proposals are intended to address?**

17. There are limited non-legislative means to address these issues other than the Legal Reform Order. There could be encouragement for Local Authorities and other large public service organisations to invest and become members in community IPS as a locally driven means to generate finance for these organisations.

**Q5. Are the proposals put forward in this consultation document proportionate to the policy objective?**

18. The Coalition believes that these proposals go some way to modernising the regulatory framework for IPS and credit unions. Coalition members and partners have been campaigning for a solution to some of the regulatory and administrative burdens that affect the competitiveness of IPS and credit unions. This policy objective cannot be achieved without primary legislation, so this proposal for a Legal reform Order does not go far enough and further developments are required.

**Q6. Do the proposals put forward in this consultation document taken as a whole strike a fair balance between the public interest and any person adversely affected by it?**

19. The Coalition has no comment to make.

**Q7. Do the proposals put forward in this consultation document remove any necessary protection?**

20. A process for the dissolution of dormant societies is needed to reduce the burden on members, but there appears to be no safeguards to prevent the risk of the dissolution of non-dormant IPS. As a result there is concern that without these safeguards this proposal could be detrimental to the sector.

**Q8. Do the proposals put forward in this consultation prevent any person from continuing to exercise any right or freedom, which he might reasonably expect to continue to exercise, as explained in Chapters 3 and 4? If so please provide details.**

21. None that we are aware of.

**Q9. Do you consider the provisions of the proposals to be constitutionally significant?**

22. The Coalition does not believe the proposals are constitutionally significant.

**Q10. In the case where the proposal will restate an enactment: Do the proposals put forward in the consultation make the law more accessible and easily understood?**

23. The Coalition has no comment to make.

**Q11. Do you agree that the proposed Parliamentary procedure as outlined in Annex C should apply to the scrutiny of these proposals?**

24. The Proposed Parliamentary procedure should be applied to these proposals.

**Q12. Do you have any other comments in relation to the proposals?**

25. Please see comments above.

**Q13. What are your views on the two options for reforming credit union's membership qualification? (See para. 3.38)**

26. The Coalition supports the removal of the *Common Bond* condition on membership of a credit union. It is supportive of the replacement of the *common bond* with a test based on a *field of membership* but we have concerns of where responsibility of regulation is based in the FSA. This does not provide parity with private companies who do not have to identify the potential customer base that will exist in the future.