

**Response by the Social Enterprise Coalition to the HM Treasury's  
Review of the GB cooperative and credit union legislation**

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## **Social Enterprise Coalitions Response to the HM Treasury's Review of the GB cooperative and credit union legislation**

1. The Social Enterprise Coalition ("the Coalition") welcomes the HM Treasury's consultation on the Review of the GB cooperative and credit union legislation. Given the growth of social enterprise and increasing diversity of the third sector, this review is both timely and necessary.
2. The Coalition was established in 2002 as the national body for social enterprise. 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 co-operatives, development trusts, Social Firms and other social enterprises. 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.
3. Many social enterprises have used the cooperative model and Industrial and Provident Society (IPS) legislation in order to pursue their social aims, particularly those that wish to use the cooperative membership framework to engage with the community and encourage participation.
4. In producing this response the Coalition has worked closely with Co-operatives UK. We are supportive of their submission. This response presents an overview of the issues that we consider important to social enterprises using the cooperative model.

### **Background to this response**

5. The incremental development that has transpired with IPS legislation means that the legislative framework is now over 114 years old. This framework governs a sector with combined total assets in excess of £400 billion, over 30 million members and involving almost 50% of the UK population. In this light it is important that this review looks to modernise legislation and provide an environment that is relevant for social enterprises that operate using the cooperative model today.
6. There is a clear need for a legislative framework that will enable social enterprise cooperatives to develop and innovate for decades to come. There needs to be an enabling environment that removes barriers, be they legislative practical or perceived, and which also examines the role and function of the Registrar. The legislative review needs to create the framework to enable a fair playing field in which social enterprises that choose the cooperative model are not disadvantaged by legislation.
7. 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 Community Interest Company, is a recently introduced legal structure designed for social enterprise. However, in some cases, in which it is desirable to maximise the involvement of a membership base, it may be more appropriate for a social enterprise to choose the IPS legal form. Additionally many of the social enterprises that established themselves before the creation of the CIC legal structure found the cooperative model the most appropriate form of the time.

### **Response to Cooperative Questions**

#### **What are your views on the current title of 'industrial & provident society' and do you have any suggestions on a possible name change?**

8. The Coalition would recommend that the title 'Industrial and Provident Society' has little resonance today, and would suggest that "Cooperative Societies and Community Benefit Societies" would be more appropriate.

#### **What are the advantages and disadvantages of introducing electronic communications for IPSs including set up costs?**

9. Cooperative legislation should be updated to allow the organisations to make the best use of modern electronic technologies, so that cooperatives are not disadvantaged. The lack of an electronic statutory register seriously disadvantages societies, as many third parties, such as credit reference agencies, cannot effectively undertake effective searches as to their status. Having the option of submitting registration documents on-line would also be of benefit. It would lead to efficiency savings and fit in with the Governments e-communications agenda.

#### **What is an appropriate minimum age for membership of an IPS, if any?**

10. The Coalition does not support the modern justification for a minimum age limit for membership, given that other companies have no such a limit. The Coalition would recommend that the limit should be removed, and left to individual societies to introduce a minimum age limit if they require one.

#### **What are the costs and benefits of raising the financial limit restrictions on withdrawable share capital?**

11. We believe that the financial limit on share capital is outdated and it is unclear what purpose it serves. The Coalition recommends the abolition of the limit in legislation, providing this does not undermine the position of current exemptions. It should then be a requirement that individual societies specify a limit in their rules.

#### **What are your views on the application of the proposals from the Company Law Review to IPSs? Please give reasons.**

12. The Coalition supports, where appropriate, the broad use of the 'Thomas powers' made in the Industrial and Provident Societies Act (IPSA) 2002. We particularly recommend that the requirements on Directors, such as the Disqualification Act, should be brought in to line with Company Law to ensure that it is recognised that cooperatives adhere to the same transparency as other corporate forms.

#### **What are the advantages and disadvantages of IPSs publishing a full audit report to support their revenue accounts and balance sheets?**

13. Cooperatives like other company forms should be able to publish the revenue accounts and balance sheets as frequently as they deem necessary, without the requirement for them to be audited each time. This would allow cooperatives to be more transparent. As the regulations currently stand cooperatives are at a competitive disadvantage to other corporate forms, because of the financial cost associated with maintaining an open relationship.

**Section 255 of the Enterprise Act 2002 allows rescue regimes such as administration afforded to companies to be extended to IPSs. Do you think these regimes should be extended to IPSs and why? What protections should be in place?**

14. The Coalition is concerned at the intention of allowing IPSs to enter insolvency in the same manner as companies as the exit of administration involves a cash injection to pay off debts, or a waiving of debts by debt-holders in exchange for equity. We believe demutualisation remains a real risk.
15. Such circumstance could arise in situations where Directors are complicit with potential investors. This could provide the circumstances for forced demutualisation without the agreement of the members, potentially allowing the investor to acquire the business at a reduced cost.
16. The review identifies the lack of rescue regimes for IPSs as being an issue for Football Trusts. Football Trusts are social enterprises which exist to promote increased democratic community participation in their local football clubs. The Coalition understands that as currently most trusts involve clubs being owned by an IPS holding company, rather than directly the Football League the rule does not apply. Consequently the Coalition would urge that extreme caution is taken in any review of the insolvency regimes for IPSs, so that damage is not caused to the cooperative model.

**Response to Credit Union Questions**

**Should credit unions aim to extend their membership to embrace the more affluent sections of the community? If yes, how can this be achieved?  
And, What are the advantages and disadvantages of allowing credit unions to pay interest on members' savings?**

17. In order to encourage the growth of credit unions, and assist the government's policy of achieving financial inclusion, regulation should allow for credit unions to attract a wider and more diverse customer base. In order to allow credit unions to function for more people, and encourage the growth of the sector, the Coalition recommends that credit unions are allowed to pay interest on savings.

**Should the use of the term 'credit union' continue to be compulsory, and be protected from use by other institutions? Please give your reasons.**

18. The Coalition does not consider that at this time it is necessary to change the 'credit union' brand name.

**Registrar Function**

19. Social enterprises registered as cooperatives face a number of barriers that are not encountered by other companies. Both Local Authorities and Banks often fail to recognise and understand the model, which can lead to exclusion from, the use or provision of services and access to finance. Similar barriers occur for example in the health sector where social enterprises registered as using the IPS legal form are not recognised as a corporate vehicle for Personal Medical Services (PMS) contracts.
20. Part of this shortfall of awareness and understanding in the market comes from the lack of a dedicated cooperatives and societies advocate that raises the profile and shapes the policy environment. This role currently sits within the HM Treasury, however what is required is a department that would take on the role with the same rigour as the Department for Business Enterprises and Regulatory Reform (BERR) undertakes for other company forms.

21. The registration of cooperative is also currently underperforming, and as alighted to earlier lack modern technology solutions, such as online registration. As part of this consultation the Coalition would also strongly recommend that the Government reviews the role, responsibilities and sitting of the registrar function.

The Social Enterprise Coalition Policy Team  
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