

Registered Society (Industrial and provident Society): Co-operative and Community Benefit Society

With many changes to legislation over the years, it has become increasingly confusing and difficult to find up-to-date information regarding Industrial and Provident Society, Registered Society, Co-operative and Community Benefit Society.

In fact, Industrial and provident Societies no longer exist under that name: The [Co-operative and Community Benefit Societies Act 2014](#), renamed these societies as co-operative or community benefit societies. From 1 August 2014 a new society has had to register as *either* a co-operative or a community benefit society rather than, as was the case previously, a society that meets either requirement.



This fact sheet outlines the basics of each structure and provides some resources for further reading.

What is an Industrial and Provident Society/ Registered Society?

An **industrial and provident society (IPS)** was a legal entity for a trading business or voluntary organisation in the UK.

Registered society are all those societies registered under the **Co-operative and Community Benefit Societies Act 2014**. This includes co-operative societies, community benefit societies. Societies previously known as '**industrial and provident societies**' are now referred to as 'registered societies'.

Industrial and Provident Societies (IPS) are a type of Mutual Society. Although they have a long history they are less common than companies, and not available to all organisations; the IPS structure is only available to genuine cooperatives and voluntary sector organisations carrying on an industry, trade or business for the benefit of the community (Industrial Provident Societies Act 1965). It is important to note that IPS's are now known as '**Registered Societies**'.

A Registered Society has all of the advantages of incorporation but with less cumbersome legislative requirements. They can therefore hold property, enter into contracts and take legal action in their own name. Committee members are also protected from personal liability in most circumstances (other than acting fraudulently, or in breach of trust etc.)

The Co-operative and Community Benefit Societies and Credit Unions Act 1965 (renamed from the Industrial and Provident Societies Act 1965) provides the legal basis for Registered Societies:

- Must have at least three members;
- May in general conduct any legal business except that of investment for profit;
- Be either a cooperative society or a community benefit society;

Registering

Registered Societies are registered (but not regulated) by the Financial Conduct Authority (FCA). To register a [FCA form](#) must be filled out and a set of rules provided. A set of model rules can be used to register which can be accessed through a sponsoring body which has agreed the rules with the FCA (you can find a list of approved sponsored rules here: <http://www.fca.org.uk/your-fca/documents/forms/model-rules-sponsors-list>). Using the model rules costs far less (£40) than using other sets of rules (up to £950).

Documentation

Annual returns and accounts must be submitted to the FCA and a register of members and officers, which must also be made available for the public, have to be kept.

Merger

Registered Societies have the advantage of a straightforward merger process called transfer of engagements that is not available to companies, although the cost of registration and annual fees are substantially higher than for a company.

Share Capital

Registered Societies generally have a share capital; however, in non-profit organisations this may be limited to a nominal amount. Shares are 'par value share' which means they can only be redeemed (if at all) at face value. Profits and losses are the common property of the members – the share normally acting more as a membership 'ticket'. Voting is 'one member, one vote'.

There is a maximum withdrawable shareholding of £20,000. Legislation in 2011 removed the limit for non-withdrawable shares and in 2006 the Financial Services Authority (FSA – now the FCA) permitted societies to have non-user investor members (with certain conditions) providing wider possibilities to raise finance from investors.

Recent legal developments include the Co-operatives and Community Benefit Societies Act 2003, which introduced the concept of an asset lock, which a society registered as a community benefit society (but not one registered as a co-operative) can introduce to prevent specified assets being used for unintended purposes.

Exempt from Charity Registration

Please note that IPS were exempt from Charity Commission registration. The Charity Commission guidance states:

'Industrial and Provident (Community Benefit) and Friendly Societies including social housing providers. This category includes any of the following types of organisations that have exclusively charitable purposes for the public benefit:

- *registered friendly societies*
- *industrial and provident societies (community benefit societies)*

These organisations are registered with the Financial Conduct Authority (FCA). Many of them are also social housing providers registered with, and regulated by, the housing regulator. Schedule 3 anticipates certain changes that have not yet been made:

- *legislation has been passed, but is not yet in force, that will rename the Industrial and Provident Societies Act 1965 as the Co-operative and Community Benefit Societies and Credit Unions Act 1965*
- *no firm decision has been made on the future regulation of community benefit societies and friendly societies as charities; one possibility is that those which are registered social*

housing providers may remain exempt whilst others may lose their exemption if no suitable principal regulator can be found

Some examples of Registered Societies (many of which would have operated under the old IPS system) are consumer, agricultural and housing co-operatives, working men's clubs, Women's Institute markets, allotment societies, mutual investment companies, friendly societies and housing associations.'

This has since been updated and Bencoms or Community benefit Societies may not be exempt if their aims are fully charitable. You can find out more about exempt charities here:

<https://www.gov.uk/government/publications/exempt-charities-cc23/exempt-charities>

Registered Societies fall into two broad categories:

1. **Co-operatives** – these trade for the mutual benefit of their members, and the Registrar will judge the legality of their action by reference to co-operative principles;
2. **Community Benefit Society (bencom)** – these trade to benefit the broader community, and the Registrar will refer to charity law.

Co-operative Society

A co-operative is a group of people acting together to meet the common needs and aspirations of its members, sharing ownership and making decisions democratically.

Co-operatives are not about making big profits for shareholders, but creating value for customers.

There is no statutory definition of a Co-operative but generally they are set up to trade and run for the mutual benefit of their members who use its services. This is based upon the common economic, social and cultural needs or interests of the members. The Registrar will judge the legality of their action by reference to co-operative principles.

There are different types of co-operatives. For example - a geographical community or people with common interests coming together to form a community co-operative. These are enterprises that are owned and controlled by people belonging to a particular community and so carry out activities that are of benefit to the defined community.

Some examples of co-operatives include:

- [Brighton Energy Co-operative](#)
- [Bristol Wood Recycling Project](#)
- [Britannia Building Society](#)
- [Cravendale Milk](#)
- [Daily Bread Co-operative](#)
- [Ecclesiastical Insurance](#)
- [Edinburgh Bicycle Co-operative](#)
- [Highland Wholefoods Workers Co-operative](#)
- [John Lewis Partnership PLC](#)
- [Liverpool Victoria](#)
- [London Capital Credit Union](#)
- [Nationwide Building Society](#)
- [NFU Mutual](#)
- [Ruskin House](#)
- [The Co-operative Bank](#)
- [Veggies of Nottingham](#)
- [Westmill Solar Co-operative](#)

The control of the co-operative lies with the members and must be exercised equally i.e. no one member has more power than another. Co-operatives have the scope to pay members a dividend which can stimulate member loyalty and strengthen the business model.

‘While the co-operative organisation are usually first thought of as Industrial and Provident Society (IPS) Co-operative, there are many different legal forms that can be used to create an organisation which falls within this definition. For example a company limited by guarantee could be used.’ (Know How Non Profit)

Members will hold voting rights in general meetings and elect the management committee - you need at least three members to register as a bona fide co-operative. They run on a democratic structure of ‘one member, one vote’.

Recent guidance from the FCA says that a co-operative can have investor-members who are not otherwise users of the society’s services. A co-operative can pay interest on member share capital and a share of the surplus, or dividend, based on the level of transactions (customer-purchases, supplier-sales or employee-wages) with the society.

Shareholders have only one vote regardless of the size of their shareholding – ensuring the society is democratic. There is also a limit on personal shareholdings (currently up to £20,000), and there is a limit on the interest paid on share capital, based on the principle that interest should be no more than is sufficient to attract and retain investment.

As co-operatives generally raise money through trade and distribute profits to members, therefore grant funding will not be as readily available and there is no tax relief.

A co-operative can convert to a community benefit society but a community benefit society cannot convert to a co-operative.

Community Benefit Societies (Becom)



Community Benefit Societies (Becom’s) trade to benefit the wider community.

Becom’s are granted charitable status by the taxation authority, HMRC, rather than the Charity Commission. The Registrar (FCA) will refer to charity law.

Becom is seen as more of a charitable vehicle. Unlike a cooperative model, there is a requirement for a Becom to benefit people other than its members.

A group that wants to be a Becom must also have a special reason for being a one over a ‘normal’ company, such as wanting to have democratic decision-making built into its structure. In practice this means including a standard constitutional provision requiring that benefits will not be returned to its own members, demonstrating that business will be conducted for the benefit of the community, and typically including an attachment to the co-operative principle of one member, one vote, regardless of contribution. (Know How Non Profit)

A community benefit society can opt to have a statutory asset lock, which has the same strength as the asset lock for a charity and for a community interest company (CIC) – it prevents the society being sold and the proceeds of the sale being distributed amongst shareholders. This type of asset lock is not currently available for co-operatives.

Community Benefit Societies with a statutory asset lock may provide greater reassurance to public funders and grant giving bodies that none of their money will end up in private hands.

Eligibility for membership may be detailed in the society's rules, and can be as broad as 'anyone who supports the objectives.' Bencoms abide by cooperative principles and will operate on a democratic, 'one member, one vote' structure.

An organisation can register as this form if:

- It is carrying on some sort of industry, trade or business which is in the interest of the community at large
- It will benefit people other than, or in addition to its own members
- All profits made from the business will be applied solely for the benefit of the community, with none distributed as profits or dividends to members or anyone else

If the organisation is being paid for its services or activities (for example as rents, fees or admission charges, as membership subscriptions and other charges paid by members of a social or recreational club) it is likely to be carrying on a trade or business and will be eligible for registration as a Bencom.

Prior to the Charities Act 2006, Bencom registered with the Financial Conduct Authority (FCA) only but could then register with HMRC to be granted charitable tax status. The 2006 act removed this exemption – therefore now charitable Bencoms **must** register with both the FCA and the Charity Commission.

Registered Societies Overview - characteristics

1. Incorporation	Yes
2. Limited Liability	Yes
3. Governing document	Constitution
4. Can register as a charity	Bencoms only
5. Ease to set up	Not as easy as a 'normal' company – requires the right model governing constitution.
6. Costs	£40 - £950
7. Sources of finance available	Some grants, loans, equity finance, crowdfunding, investment and trade.
8. Registrar	Financial Conduct Authority
9. Members	Yes
10. Income requirement	No
11. Converting to CIO	Yes – only Bencoms not exempt IPS organisations
12. Asset Lock	Yes for Community Benefit Societies
13. Dividends & interest	Yes but various restrictions and case law
14. Tax Benefits	Yes if registered with HMRC

The Pros and Cons of CBSs

Pros	Cons
Incorporation – so limited liability for members	May be difficult to explain structure to funders.
Highly democratic	Slower registration process, especially if model rules are not used
Community Benefit Societies have an asset lock	Expensive registration process, especially if model rules are not used
Advantages of incorporation but with less cumbersome legislative requirements	Annual fee payable to FCA of between £55 and £450, depending on assets
Straightforward merger process called transfer of engagements that is not available to companies	Not available to all organisations
	Cost of registration and annual fees substantially higher than for a company

The other main legal types of incorporated organisations:

Company Limited by Guarantee	Charitable Incorporated Organisation	Community Interest Company
<p>1. Created in 1862, the majority of voluntary organisations which incorporate become private companies limited by guarantee and not having share capital.</p> <p>2. Registered to Companies House, Regulated by Company Law</p> <p>3. Can also register as a charity – will then be regulated by Charity Commission as well.</p> <p>4. Limited liability – members guarantee to contribute a sum, normally, between £1 and £10 if the company becomes insolvent and is wound up. Personal liability is limited to this sum.</p> <p>5. Easy to set up with Companies House – costs £15 to register</p> <p>6. Must file accounts and report to Companies House – fine if not</p> <p>7. Asset lock</p> <p>8. Sources of funding: loans, Crowdfunding, trading, some grants, service delivery contracts</p>	<p>1. An organisation with charitable aims that meets the public benefit test and is incorporated without being a company.</p> <p>2. An organisation can register as a CIO with no annual income.</p> <p>3. The governing document will be a constitution.</p> <p>4. The trustees will be protected in most circumstances against contractual liabilities.</p> <p>5. Must have members.</p> <p>6. CIOs only register with the Charity Commission.</p>	<p>1. The Community Interest Company (CIC) is the form that was developed particularly for social business.</p> <p>2. The regulatory body for the CIC form is the CIC regulator: http://www.bis.gov.uk/cicregulator</p> <p>3. Must also register with Companies House</p> <p>4. Subject to company law.</p> <p>5. Must meet community benefit test.</p> <p>5. Asset lock</p> <p>6. Caps on interest and dividends</p> <p>7. Can be Limited by Guarantee or Limited by Shares</p> <p>8. Cannot be charitable – even if the objects are wholly charitable.</p> <p>9. No charity tax advantages – subject to corporation tax on profits and capital gains</p> <p>10. Can issue shares – although subject to a dividend cap</p> <p>11. Not eligible for stamp duty reliefs on transfer of investments or transfer of land</p> <p>12. Can raise loans and debentures and interest on these is subject to a cap</p> <p>13. Cannot benefit from gift aid and other forms of tax-effective giving</p> <p>14. Members of the governing body can be paid as long as they are reasonable payments, don't violate community interest test or the asset lock</p> <p>15. Bequests to CICs are not exempt from inheritance tax</p> <p>16. Some funders may not be able to fund CICs</p> <p>17. If wound up the assets are preserved for community benefit rather than being distributed to members or used for other purposes outside the original intention</p>

References and further information:

- The Russell-Cooke Voluntary Sector Legal Handbook, Third Edition
- Ruth Hayes and Jacki Reason: 'Voluntary but not Amateur – A guide to the law for the voluntary organisations and community groups': 8th Edition: Directory of Social Change (2012)
- Financial Conduct Authority (FCA) <http://www.fca.org.uk/firms/firm-types/mutual-societies/industrial>
- Financial Conduct Authority (FCA) <http://www.fca.org.uk/static/documents/industrial-provident-societies-guidance-note.pdf>
- Charity Commission <http://www.charitycommission.gov.uk/detailed-guidance/registering-a-charity/exempt-charities-cc23/industrial-and-provident-societies/>
- HMRC <http://www.hmrc.gov.uk/manuals/ctmanual/ctm40505.htm>
- [Industrial and Provident Society](#) at website of [Companies Registration Office \(Ireland\)](#)
- Know How Non Profit <http://knowhownonprofit.org/basics/setting-up-a-charity/legal-forms-for-non-profits-1/industrial-and-provident-societies>
- Co-operatives UK <http://www.uk.coop/>
- section 8 <http://www.legislation.gov.uk/ukpga/2010/7/section/8>
- <http://www.legislation.gov.uk/uksi/2011/2687/contents/made>
- <http://www.thenews.coop/blog/co-operatives-bill-camerons-consolidation-plan-co-op-law-great-britain>
- http://www.hm-treasury.gov.uk/press_126_12.htm
- <http://www.legislation.gov.uk/ukpga/2012/21/part/3/enacted>
- Law Commission: <http://lawcommission.justice.gov.uk/consultations/co-operative-community-benefit-societies-bill.htm>
- <https://www.gov.uk/government/consultations/industrial-and-provident-societies-growth-through-co-operation>
- [Industrial & Provident Societies](#), Financial Services Authority
- [FSA Mutuals Public Register - searchable](#), Financial Services Authority
- [Industrial and Provident Societies Act 1965 \(c. 12\)](#) as amended
- [Industrial and Provident Societies Act 2002](#) as enacted
- [Co-operatives and Community Benefit Societies Act 2003](#) as enacted
- [Co-operative and Community Benefit Societies Act 2014](#) as revised

Support

If you would like any support with starting up an organisation or any other issues facing your organisation, please contact the Development Team at Community Southwark: development@communitysouthwark.org or 020 7358 7020