

CO-OPERATIVES AND BENCOMS

Briefing No. 1 – September 2013

Why set up a co-operative?

Every co-operative in the world started from the same place: a group of like minded people who identified a business need or opportunity and came together to try and fulfil it.

THE SEVEN PRINCIPLE OF CO-OPERATION

- People can join – and leave
- Your voice will be heard
- You control the capital
- Together, you are independent
- You can develop yourself and others
- You can be more successful by co-operating with others who know how to co-operate
- You can do something for your community even as you keep succeeding.

There are over 6,169 independent co-operatives in the UK. From football to fashion, health care to housing, community owned shops to credit unions, and wind farms to web design.

Co-operatives exist to serve their members, whether they are the customers, the employees or the local community. Because they do not need to bring benefits to outside shareholders, co-operatives can focus on making sure that members get the best service.

What's more, these members are the owners, with an equal say in what the co-operative does. So, as well as getting the products and services they need, members shape the decisions their co-operative makes.

Models of co-operation

Co-operatives are flexible with different forms for different types of members. The choice of model will depend on your members and how you engage with them.

For instance, if you are a smaller co-operative and your primary focus is your co-workers, a *worker co-operative* may be the best form of business. If your members are primarily your

customers, you can form a *consumer co-operative*. A geographical community or people with common interests come together to form a *community benefit society (BenCom)*. These are

enterprises that are owned and controlled by people belonging to a particular community. Normally they will carry out the activities that are of benefit to a defined community.

Legal Forms

The International Co-operative Alliance (ICA) Statement on the Co-operative Identity describes a co-operative as *'an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise'*. All co-operative organisations operate under the ICA co-operative values and principles.

There are many different legal forms that can be used to create an organisation which falls within the above ICA definition.

Community benefit society (BenCom) and a bona fide **co-operative** are the two main legal structures that can be registered under the Industrial and Provident Societies Act (Northern Ireland) 1969.

The **IPS co-operative** format has the following characteristics:

- One member, one vote;
- Return on capital must be limited;
- Profit must be shared using an equitable formula; and
- no artificial restrictions on membership.

The **IPS BenCom** format can be appropriate for democratic, non-profit distributing organisations.

BenComs characteristics are similar to those of a co-operative but includes a requirement to primarily benefit people other than its members.

A BenCom can 'lock' its assets. This means that upon dissolution the assets cannot be shared among the members, rather they must go to another asset locked organisation with similar objects.

In Northern Ireland, the registration of co-operatives and community benefit societies is currently carried out by the Registrar based in the Department of Enterprise, Trade and Investment (DETI).

The governing document of IPSs is simply known as the "rules" and using **Model Rules** (standardised rules previously approved) can reduce the registration costs and timescales. Registration means that the personal liability of any member is limited to the amount of share capital, the registered entity is a corporate body and, it will continue to exist even if its membership changes.

At least three individual members are needed to register and maintain an IPS. The minimum age limit for governing body members of IPSs is currently 18 but it is likely to be reduced to 16 in the near future. Co-operative societies cannot generally be charitable but community benefit societies may be charitable, depending on their objects and the extent to which they provide public benefit.

Contact Co-operative Alternatives for your registration needs. We work with you on your business model and help with governing documents.

Finance

IPS societies can raise finance from loans and grants (depending upon funders and type). These sources of finance can also be leveraged by a *community shares* offer, an innovative way of raising finance and engage the community.

EQUITY FINANCE: COMMUNITY SHARES

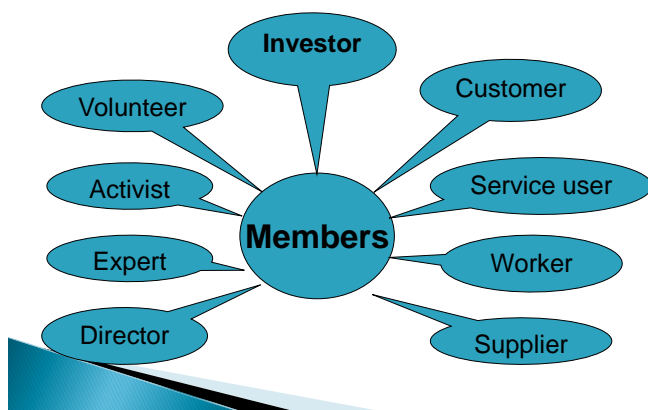
The term *community share* is used to refer to a unique form of share called 'withdrawable share' which can only be issued by co-operatives and community benefit societies. A withdrawable share is very different from an ordinary share which is the type normally issued by companies. A withdrawable share can be cashed-in, subject to the rules of the society and it is not tradable on the stock exchange. Every shareholder is a member with one vote.

COMMUNITY SHARES OFFERS

Since 2009, more than 120 successful community share offers have been made in UK. A successful community shares issue needs four key elements:

- A business model – with a credible business plan that generates a surplus over time, and so would allow shares to be withdrawable.
- Society registration – as a Co-operative or Community Benefit Society (not a company), with a governing document that allows withdrawable shares to be issued.
- A supportive **community** around the Society – with a culture of collective action, openness and participation.
- An offer document – that clearly states what the Society wants to do, how much it will cost, how members can contribute, under what terms and conditions, and an application form.

Member engagement



Members are investing in shares at risk. They are not making a donation. Successful societies provide numerous opportunities to harness the goodwill of members in many ways (see diagram): volunteers, customers, service users or social investors. This can make the difference between an enterprise being viable or not.

A CAUTIONARY NOTE: Some Societies have issued community shares without taking specialist advice. However, this increases the risk of failure, damages the reputation of other community shares Societies, and increases the risk of expensive regulation in the future.



Co-operative Alternatives can offer assistance with any of the issues discussed in this information briefing. This briefing does not contain all the information you may need, please for further details, visit www.coopalternatives.coop and contact Tiziana O'Hara at tiziana@coopalternatives.coop and 028 90331053 or 07858 317 634.

Co-operative Alternatives is the only body in Northern Ireland entirely devoted to developing successful co-operatives and community benefit societies. We offer high quality range of advice on legal, financial, business and democratic governance. We provide tailored training and business support to all groups who want to do business in a co-operative way.

"Community Shares, Ready!" project is commissioned by the Building Change Trust.

