

## Chapter 5

# Defining a community benefit society



## 5.1 Our approach

- 5.1 **I** This chapter sets out our approach in deciding whether a society satisfies us that its business is being, or is intended to be, conducted for the benefit of the community.  

A community benefit society must be carrying on an ‘industry, business or trade’. That business industry or trade must be ‘being, or intended to be, conducted for the benefit of the community’. This is the condition for registration.

The Act does not define the words ‘community benefit’. Below we explain our approach to applying these words. At the end of this chapter we provide further guidance on subsidiaries.

### **Purpose of a community benefit society**

- 5.1.1 **G** The purpose of a community benefit society is to benefit ‘the community’. The community can be said to be the community at large. Societies can specify a defined community, such as a locality. In serving the needs of any defined community the society should not inhibit the benefit to the community at large.
- 5.1.2 **G** A community benefit society can be wholly charitable or benevolent, but it does not have to be, as long as it is conducting its business for the benefit of the community.
- 5.1.3 **G** The condition for registration does not say community benefit societies must ‘primarily’ or ‘mainly’ benefit the community. Our view is that the condition for registration does not allow for an alternative secondary purpose that does not benefit the community. So the conduct of a community benefit society’s business must be entirely for the benefit of the community.
- 5.1.4 **G** A community benefit society which wants to enter into joint ventures or other commercial arrangements should consider how this would benefit the community, particularly if the partner organisation does not exist to benefit the community.
- 5.1.5 **G** Unlike a co-operative society, a community benefit society should not exist to provide benefits contingent upon membership. We therefore do not generally regard co-operatives as meeting the condition for registration as a community benefit society.

**Membership**

5.1.6 **G** All societies must have members who hold shares in the society. The nature of the relationship between a society and its members will vary from society to society. We generally do not consider a society that delivers benefits contingent upon membership to be meeting the condition for registration.

5.1.7 **G** It is not usually appropriate for a community benefit society to give any particular group of members greater rights or benefits, because the society must be conducting its business for the benefit of the community. So, for example, we would expect to see community benefit societies run democratically on the basis of one-member-one-vote.

5.1.8 **G** A community benefit society deviating from this principle would need to be able to satisfy us that the arrangement helps it fulfil its purpose of benefiting the community.

**Application of profits**

5.1.9 **G** Any profit made by a community benefit society must be used for the benefit of the community. This may include ploughing the money back into the business so that the society can continue to benefit the community. If profits are not ploughed back into the business they must still be used for the benefit of the community, including for philanthropic or charitable activity.

5.1.10 **G** Community benefit societies cannot distribute profits to people on the basis that they are members of the society. If profits are distributed, then this can only be to further the society’s purpose of benefitting the community.

5.1.11 **G** We do not consider the payment of interest on shares in accordance with **RFCCBS 6.1.21** to be a distribution of profits: it is a cost of capital. However where it is appears that payment of interest on shares is the primary purpose of a community benefit society, we may refuse to register the society or may take steps to cancel its registration.

**Use of assets**

5.1.12 **G** Community benefit societies must only use their assets to benefit the community. If the society is allowed to sell its assets then the proceeds of any sale must be used for the benefit of the community.

5.1.13 **G** On solvent dissolution, or conversion or amalgamation to a company, a community benefit society should not allow distribution of assets to members, as to do so would not further the society’s purpose of benefiting the community. Instead, the society could use its assets for the benefit of the community by, for example, transferring them to a similar organisation with similar objects.

5.1.14 **G** Community benefit societies can adopt a statutory asset lock. There is more information about this in **RFCCBS 3.4.12**.

## 5.2 Subsidiaries

- 5.2.1 **G** Where a community benefit society is a subsidiary (whether of a parent that is a community benefit society or not) the subsidiary's business must be conducted for the benefit of the community.
- 5.2.2 **G** The rules of a society which is a subsidiary must still comply with the Act. In particular, society rules must not contravene statutory thresholds, irrespective of the parent-subsidary relationship. For instance, a parent cannot have more than one vote on conversion of the society. ■ RFCCBS 3.4.10 of this guidance sets out further details on this subject.
- 5.2.3 **G** Where a community benefit society is to be a parent of another entity (whether that entity is a community benefit society or not), we expect the parent society to still be conducting its business for the benefit of the community, both in its own right and through its subsidiary. To avoid compromising the parent's ability to conduct its business for the benefit of the community the subsidiary must also be conducting its business for the benefit of the community in line with the parent's objects.
- 5.2.4 **G** A community benefit society must be able to demonstrate that the decision to become a parent, or a subsidiary, furthers its objects.