**EXPLANATORY MEMORANDUM TO**

**THE CO-OPERATIVE AND COMMUNITY BENEFIT SOCIETIES ACT 2014 (AMENDMENTS TO AUDIT REQUIREMENTS) ORDER 2017**

**2017 No. [XXXX]**

## 1. Introduction

1.1 This explanatory memorandum has been prepared by Her Majesty's Treasury and is laid before Parliament by Command of Her Majesty.

## 2. Purpose of the instrument

2.1 This Order amends the Co-operative and Community Benefit Societies Act 2014 (c.14) ("the Act") to increase, for financial years ending on or after 6th April 2018, the thresholds below which registered societies under the Act are able to disapply the requirement to conduct an audit from £2.8 million in assets and £5.6 million of turnover to £5.1 million in assets and £10.2 million of turnover in order to assimilate with the thresholds for companies qualifying as small in relation to a financial year as provided in the Companies Act 2006 (c.46).

## 3. Matters of special interest to Parliament

***Matters of special interest to the Joint Committee on Statutory Instruments***

3.1 None.

***Other matters of interest to the House of Commons***

3.2 Disregarding minor or consequential changes, the territorial application of this instrument includes Scotland.

## 4. Legislative Context

4.1 Section 134 of the Act confers upon the Treasury the power to amend relevant provisions of the Act for the purpose of assimilating the law relating to companies and the law under the Act relating to registered societies by making by Order such modifications of the relevant provisions of the Act as the Treasury considers appropriate.

4.2 The making of this Order is the first exercise of the power conferred by section 134 and amends section 84(1) of the Act.

4.3 Section 477 of the Companies Act 2006, as amended by S.I. 2012/2301, sets out an exemption for small companies from the requirement to have their accounts audited.

4.4 Section 382 of the Companies Act 2006, as amended by S.I. 2013/3008 and S.I. 2015/980, sets out how a company qualifies as a small company for purposes of the exemption described in 4.3 above, and section 382(3) provides threshold values for assets, turnover and number of employees, any two of which will qualify a company as a small company for purposes of the exemption.

4.5 By this Order, the Treasury amend section 84(1) of the Act to align the thresholds below which registered societies will not require an audit with those thresholds

described in 4.4 above applicable to small companies enjoying the exemption described in 4.3 above.

4.6 The thresholds in section 383(3) of the Companies Act 2006 are for assets (£5.1 million) and turnover (£10.2 million). The threshold for number of employees as provided under section 383(3) of the Companies Act 2006 has not previously been provided in the Act and is therefore not assimilated by this Order.

4.7 This Order will come into force at the commencement of the new tax year, on 6th April 2018.

## 5. Extent and Territorial Application

5.1 The extent of this instrument is England, Wales and Scotland.

5.2 The territorial application of this instrument is England, Wales and Scotland.

## 6. European Convention on Human Rights

6.1 The Economic Secretary to the Treasury has made the following statement regarding Human Rights:

"In my view the provisions of the Co-operative and Communities Benefit Societies Act 2014 (Amendments to Audit Requirements) Order 2017 are compatible with the Convention rights."

## 7. Policy background

***What is being done and why***

7.1 A co-operative society is a business owned and run by and for the benefit of its members. A community benefit society must satisfy the same co-operative principles as a co-operative society and must also be operated for the benefit of the community in which it works. All registered societies embody democratic principles; in particular, members have equal voting rights regardless of the level of their financial commitment. This enables members, who may be employees, customers or residents, to be involved in the running of the business.

7.2 There are nearly 7,000 societies in Great Britain. The number has grown as the sector has continued to provide a popular and successful structure for mutually run business. Societies cover a vast range of activities and industries including public service providers, football clubs, wind farms, web designers and agricultural suppliers. Some have hundreds of members and are large employers; others have just a handful of members.

7.3 The current audit and reporting requirements for registered societies under the Act state that some societies can disapply the requirement to appoint a professional auditor if: their assets and turnover are below £2.8 million and £5.6 million respectively, their members have passed a resolution to disapply the requirement, and they are not on the list of exempted societies who cannot disapply the requirement.

7.4 These thresholds are out of step with both inflation over the last decade, and current company law. Over the same period, the thresholds for private limited companies of comparable size have been updated. Private limited companies are not required to appoint an auditor if their assets are less than £5.1 million and their turnover is under £10.2 million.

7.5 This discrepancy means that co-operative and community benefit societies with turnover between £5.6 million and £10.2 million and assets between £2.8m million and £5.1 million are still required to appoint a professional auditor whereas private limited companies of the same size are not. In the long term, if the thresholds for co-operative and community benefit societies were not revised in line with those for private limited companies the attractiveness of the co-operative model as a legal form could deteriorate.

7.6 This Order increases the assets and turnover thresholds at which registered societies are required to appoint an auditor from £2.8 million and £5.6 million respectively to £5.1 million and £10.2 million respectively. This will place societies on a level playing field with private limited companies of the same size in respect of the audit requirement.

***Consolidation***

7.7 This instrument does not consolidate existing legislation.

## 8. Consultation outcome

8.1 This proposal was subject to consultation in 2017 (Increasing Audit Thresholds for Co-operative and Community Benefit Societies). The vast majority of responses were from individual co-operatives and trade bodies. Most of the respondents fully supported the proposal, saying that it would save growing societies thousands of pounds each year in audit fees that companies of the same size do not have to pay. The Government took into account the responses to the consultation in its decision to proceed with this proposal.

8.2 6 members of Co-ops UK (the trade body for co-operatives and community benefit societies in the UK), submitted a prepared response, supporting the change and suggesting other measures that may help improve the corporate framework for societies, such as the thresholds for charitable community benefit societies.

8.3 The Government noted these suggestions, however they fell outside the scope of this consultation. The Government continues to keep all representations under review and will continue to engage with all interested stakeholders to help the industry grow and flourish.

8.4 The Government's response to this consultation can be found at https://www.gov.uk/government/consultations/increasing-audit-thresholds-for-co-operatives-and-community-benefit-societies

## 9. Guidance

9.1 The FCA is considering its guidance in light of the changes.

## 10. Impact

10.1 This will reduce the administrative burden for registered societies under the Act with assets between £2.8 million and £5.6 million and turnover between £5.1 million and £10.2 million who choose to disapply the audit requirement. The estimated benefit to the sector is between £1.44 million and £1.63 million per year. The impact on other businesses, charities or voluntary bodies is minimal.

10.2 The impact on the public sector is minimal. There will be a small, short-term impact on public sector resources as the FCA will need to update guidance for registered societies under the Act.

10.3 An Impact Assessment has not been prepared for this instrument.

## 11. Regulating small business

11.1 The legislation applies to activities undertaken by small businesses.

11.2 The changes in the law made by this Order were requested and welcomed by the mutual societies sector. The change does not impose an additional regulative burden on small businesses. In fact, it reduces the regulatory burden by raising the financial threshold under which co-operative and community benefit societies can disapply the requirement to conduct an audit.

## 12. Monitoring & review

12.1 This instrument does not provide for a review of the amendments it makes.

12.2 The Economic Secretary to Her Majesty's Treasury has made the following statement regarding the appropriateness of a legislative provision for review of this instrument:

"It is not appropriate to make legislative provision for review of The Co-operative and Community Benefit Societies Act 2014 (Amendments to Audit Requirements) Order 2017. This Order increases the threshold at which co-operatives and community benefit societies require an audit, reducing the requirement for some societies to complete onerous administration. It is further considered that a statutory review of this Order would be disproportionate to the economic impact of this change."

## 13. Contact

13.1 Katharine Lyness at HM Treasury Telephone: 020 7270 2467 or email: retailbankingandmutuals@hmtreasury.gsi.gov.uk can answer any queries regarding the instrument.