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Accounting for Co-operative Community Benefit: Where Membership Meets Community

John Maddocks

A relatively recent development has been the growth in social co-operatives with primary purposes that shift the focus away from member needs to benefitting a wider public or community. This shift in focus leads to a different set of accountabilities from those associated with traditional member-benefit co-operatives, central to which is a social co-operative's accountability for its public, or community, benefit. This paper explores co-operative community benefit reporting within a UK context. In particular the paper explores public/community benefit reporting requirements for different co-operative legal forms. Similarities and differences between reporting requirements and guidance are highlighted and possible implications for a co-operative annual reporting framework are discussed. The paper concludes with implications for reporting and areas for further research.

Introduction

In an earlier paper (Maddocks, 2019), consideration was given to the development of a co-operative accountability model. The rationale for that paper was that co-operative accounting has generally focused on co-operatives that have a member-oriented primary purpose or mission. In these instances, the accounting and reporting practices are geared towards member interests. Yet, there has been a growth in different types of co-operative organisational form, including in the UK, some organisations which are charities, community benefit societies, or community interest companies. This includes social co-operatives whose primary purposes extend beyond traditional member-benefit to encompass wider community or public benefit. It is useful therefore to consider accounting for and reporting on co-operative community benefit, taking account of regulations and guidance around the identified legal forms.

The paper starts with a brief overview of terminology, followed by outlines of public benefit and community benefit reporting requirements, and examination of the similarities and differences in these requirements before looking at the implications for co-operative accounting. The paper concludes with some thoughts on avenues for further research.

Principle 7: Concern for Community

Co-operative values and principles that make up the co-operative identity are often perceived as important to any discussion of co-operative accounting and accountability (see for example, Hicks et al., 2007; Mayo, 2011; Brown et al., 2015; Webb, 2017). Included within these values and principles are references to the wider community within which co-operatives operate. In particular, the International Co-operative Alliance (ICA) guidance on the co-operative principles (ICA, 2015) refers to the seventh co-operative principle of concern for community and asserts that co-operative values of self-help, self-responsibility, honesty, openness, social responsibility, and caring for others are realised through this principle. The ICA guidance goes on to emphasise the importance of ensuring co-operative enterprises not only benefit their members but also benefit their local communities.

What is considered 'local' will vary, depending on which communities the co-operative operates in and the size and activities of the co-operative. Furthermore, the nature of community benefit that different co-operatives generate will also vary depending on the primary purpose and strategic priorities of the organisation. The ICA guidance places an emphasis on sustainable social development, but also notes the involvement of co-operatives in addressing particular

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social needs and delivering a range of social and community services, including health, education, social and community programmes and projects. In ‘traditional’ co-operatives, the focus on sustainable development places emphasis on the members as having “the democratic right to control the dynamic creative tension inherent in this Principle: the balance between self-interest and the wider concern for community” (ICA, 2015, pp. 87-88).

Social Co-operatives: Balancing Conflicting Interests?

Table 1: Examples of UK social co-operatives

Cartrefi Cymru Co-operative Limited	Leisure in the Community Co-operative CIC	CANDO Care Charitable company limited by guarantee
Total income 2019 — £23.9m Cartrefi Cymru supports people of all ages who need social care or housing related support — usually, but not exclusively resident in Wales with a mental or physical disability, or mental illness. In 2016/17, the company’s Articles of Association were revied to incorporate a commitment to co-operative principles “to enable the charity to function as a multi-stakeholder co-operative while retaining its status as a charity and company limited by guarantee” (Trustees’ Annual Report, 2019). The Financial Conduct Authority approved the use of “co-operative” in the organisation’s registered name. https://www.cartrefi.coop	A charitable society for the benefit of the community Turnover 2018 — £9.05m Purpose is to carry on any business, trade or industry for the benefit of the community, to provide facilities for recreation and leisure time occupation in the interests of social welfare and to promote and develop leisure services and to advance the education of public in such activities. The principal activity of the Society is the management of community-based leisure facilities on behalf of local authorities (Financial Conduct Authority [FCA] Annual Return (AR30) form, 2018). Listed on the FCA mutuals register as a community benefit society. http://www.leisureinthecommunity.co.uk	Private company limited by guarantee and registered as a community interest company. Year-end 2019 — £11k (rounded) Cando Care is a well-being day centre for the elderly and vulnerable in the local community and to provide respite for their families (Unaudited financial statements for the year ended 31 May 2019). https://www.candocarecic.co.uk

Social co-operatives are recognised as an important development within the co-operative sector and are noted as differing from other forms of co-operative in that their primary purpose is the delivery of goods and services in the wider general interest of a community extending beyond the co-operative’s members (Mori, 2017). In formulating the 1995 principles and guidance around Principle 7, the ICA notes co-operative history in the delivery of health, educational, employment, and social care services. Often responding to crisis and austerity measures, co-operative forms of ownership and management have been part of transfer of public services in some instances and in working “for the general benefit of communities” (ICA, 1995, p. 88). Social co-operatives are one arena where the tension between member-interest and a broader, more encompassing general interest can be demonstrated and this emphasises the need for attention to accounting for and reporting co-operative community benefit. The term ‘general interest’ is commensurate with the terms ‘public benefit’ and ‘community benefit’. Depending on their legal structure, UK social co-operatives registered as charities, community benefit societies or community interest companies may find themselves having to report on their public benefit or community benefit. For example, charities report on their public benefit; community benefit societies and community interest companies report on their community benefit. The scope and nature of reporting varies and there is some overlap between public benefit and community benefit annual reporting particularly where a community benefit society opts to apply the Statement of Recommended Practice on Accounting and Reporting by Charities (Charities SORP) (Charity Commission for England and Wales, Charity Commission for Northern Ireland and Office of the Scottish Charity Regulator, 2019).

Leisure trusts, established as community benefit societies and with charitable status, can be considered an example of this type of social co-operative, where public services are provided to communities through contracting with local authorities and where membership of the leisure trust is open but not a requirement for using services. In such situations, the primary purpose of the leisure trust is public benefit oriented rather than member oriented, although both membership participation and public benefit are characteristics of their organisational structure. See Table 1, for examples.

Charity, community benefit society and community interest company reporting mechanisms for accounting for a wider community benefit are now discussed in turn, particularly in relation to annual reporting requirements applicable in England and Wales.

Public Benefit Reporting: Charities

For an organisation to be a charity it must have a charitable purpose recognised in charity law and that charitable purpose must be for the public benefit. The notion of public benefit has developed both through charity legislation and case law (Morgan, 2012). While the Charities Act 2011, which applies in England and Wales, does not provide a definition of public benefit, it does however set out a public benefit requirement which has two aspects: the benefit aspect and the public aspect. Firstly, the organisation's purpose must be identifiable as beneficial based on evidence where necessary, and with the benefits outweighing any negative effects. Secondly, the organisation's purpose must benefit the public or a sufficient sub-section of the public, with any personal, or private, benefit being incidental to fulfilling the organisation's purpose (Charity Commission for England and Wales, 2014). As such, private benefit is not excluded but must be limited only to that considered necessary for the delivery of public benefit. In relation to social co-operatives, this means that goods and services provided by a co-operative would need to benefit a wider community or an appropriate sub-section of a community and would not be limited to members. This can extend to ensuring that the more disadvantaged in a community are not excluded from accessing goods or services.

Charities registered with the Charity Commission for England and Wales are required to produce a public benefit report as part of their trustees' annual report, which accompanies the annual financial statements. As stated above, public benefit is not defined in charity legislation and instead is interpreted on the basis of developments in case law (Morgan, 2012). The Charity Commission, however, is required to issue guidance.

Table 2: Principles of public benefit requirements

Principle	**There must be an identifiable benefit or benefits**
Sub-principle	It must be clear what the benefits are
Sub-principle	The benefits must be related to the aims
Sub-principle	Benefits must be balanced against any detriment or harm
Principle	**Benefit must be to the public or a section of the public**
Sub-principle	The beneficiaries must be appropriate to the aims
Sub-principle	Where benefit is to a section of the public, the opportunity to benefit must not be unreasonably restricted by geographical or other restrictions
Sub-principle	People in poverty must not be excluded from the opportunity to benefit
Sub-principle	Any private benefits must be incidental

(Based on Charity Commission guidance (2008) amended to remove ability to pay principle).

Guidance issued in 2008 provided a set of principles which sought to clarify public benefit requirements. The principles were amended following the Independent Schools Council case in 2011, with the removal of a principle addressing fee charges as a potential barrier to accessing benefits (Morgan & Fletcher, 2013) and are set out in Table 2, above.

More recently the Charity Commission for England and Wales has published guidance on public benefit reporting (2017). Outlined in the guidance is the duty on smaller charities (gross annual income not exceeding £500,000) to report on their main activities in furtherance of charitable objectives and public benefit, and to include a statement of compliance with Charity Commission guidance. Larger charities must also state their charitable purposes and objectives, strategies adopted, activities undertaken, and achievements in fulfilling their purposes and objectives.

The guidance, however, is not prescriptive with regard to how a charity reports on these matters and emphasises the role of the trustees in deciding what is reported including the level of detail. In addition, there is no requirement to report on public benefit under a single heading. Rather, charities can opt to address the topic within their existing reporting on objectives and activities, as long as they also include a statement making clear that they have “had due regard to the commission’s public benefit guidance” (Charity Commission for England and Wales, 2017, p. 6). The guidance, therefore, rather than setting prescriptive criteria for reporting on public benefit, allows the reporting organisation to communicate their understanding and interpretation of public benefit in the context of the organisation’s objectives and related activities and achievements.

The Charities Statement of Recommended Practice (SORP) includes similar guidance as well as several additional requirements. In particular, the Charities SORP requires charities to state that they are public benefit entities and larger charities are expected to report expenditure on an activity basis to show how resources have been used in furtherance of charitable objectives and public benefit (Charity Commission for England and Wales, Charity Commission for Northern Ireland, Office of the Scottish Charity Regulator, 2019). Furthermore, required disclosures on staff and trustee remuneration, and related party transactions, assist with assessing whether the charity is operating for public rather than private benefit. As such, the notion of public benefit is embedded in the Charities SORP both in the Trustees’ Annual Report as well as in the financial statement requirements to account for the stewardship of resources in furtherance of charitable aims and public benefit.

Reporting on public benefit by charities, however, is still developing. A study of over 1,400 charities annual reports (Morgan & Fletcher, 2013) found considerable variation in charity public benefit reporting. While most reports included a statement of charitable objectives, many failed to give a clear description of their public benefit activities and the majority did not explain how such activities benefitted the intended beneficiaries. The study took place soon after implementation of the public benefit reporting requirement and reporting may have improved since, although requirements to report on public benefit remain light touch. Furthermore, the study concentrated on public benefit reporting within the Trustees’ Annual Report and did not look more widely at, for instance, activity-based reporting, staff and trustees’ remuneration and related party disclosures in the financial statements and notes. More recently, a report from the Charity Commission (2018) based on a random sampling of 105 annual reports and accounts (covering accounting periods ending during the 12 months to 31 December 2016) suggested that just under 50% of those reviewed met the public benefit reporting requirements. This showed a marginal improvement on the previous year.

Community Benefit Reporting: Community Benefit Societies

The term ‘community benefit’ in a UK co-operative organisational context commonly refers to community benefit societies registered under the Co-operative and Community Benefit Societies Act, 2014, which consolidated earlier Industrial and Provident Society legislation (Financial

Conduct Authority, 2015). The legislation does not define community benefit other than to state that “the business of the society … is conducted for the benefit of the community” (Co-operative and Community Benefit Societies Act 2014, S2(2)(a)(ii)). Additional Financial Conduct Authority (FCA) guidance interprets community benefit as capable of applying to a whole community or a more narrowly defined community. While a community benefit society’s activity must be entirely for the benefit of a community, such benefits should not be contingent upon membership of the society (FCA, 2015).

Community benefit can be charitable, but it does not have to be. As such, community benefit can include social activities and benefits that may fall outside of recognised charitable purposes. In common with public benefit, however, the primary purpose of the organisation is oriented to community rather than member benefit. Even so, membership participation remains a key characteristic of community benefit societies’ organisational structure.

At the time of writing, there is no requirement for community benefit societies to report on their annual benefit in their formal annual report and financial statements. They are, however, required to provide information on their community benefit in their annual return to the FCA which is published on the FCA website as an attachment to a community benefit society’s annual report. The community benefit information requested on the annual return includes:

- The business of the society, for example the goods and services provided;
- The benefits to the community the society delivered;
- How the society’s goods and services delivered these benefits; and
- Whether the society worked with a specific community.

The information the community benefit society provides in its annual return, including the type of content and level of detail, is not prescribed. So, for example, the information provided may be a single sentence or several paragraphs and may include a mix of narrative and quantitative content, or just narrative content. To date, community benefit reporting by community benefit societies is under researched, and there has not been a study examining current community benefit reporting practice.

Community Benefit Reporting: Community Interest Companies

The term ‘community interest’ in a UK co-operative organisational context refers to community interest companies (CICs) which are incorporated under company law and are also registered with the CIC regulator. As with public benefit and community benefit, community interest is not defined. Guidance produced by the CIC regulator indicates that community interest is considered to be anything that a reasonable person might consider as activities carried on for the benefit of the community (Office of the Regulator of Community Interest Companies, 2016). As such, not all activity carried on by the CIC must be *directly* beneficial to the community, although everything that a CIC does should contribute in some way towards achieving a purpose beneficial to the community. No purpose is ruled out as long as the resulting activities provide a benefit to the community. CICs are not required to be member-based organisations, although some co-operative companies are registered as CICs. In such cases, a CIC cannot be used solely for the benefit of members, although they may benefit members alongside other community beneficiaries.

The requirements for CICs to account for community benefit are limited. For example, there is no requirement to account for community benefit in their formal annual report. Rather, the formal annual reporting requirements are the same as for any limited company. CICs are, however, required to complete and file an annual CIC Report with the CIC regulator, in addition to their annual report. CIC regulations require reporting on: what the CIC had done to benefit the community; how it consulted with stakeholders on its activities; directors' remuneration, dividends declared; and assets transferred. The requirement to report on community benefit is limited to a general description of the company's activities and impact including a description of how the CIC benefitted the community. How community benefit is reported is not prescribed, and while research on the subject is limited, indications are that most CICs provide very little information on their community benefit. A study of 80 annual CIC reports, for example, found that the majority of the CICs in the sample provided four or less sentences when reporting on their community benefit (Nicholls, 2010).

Similarities and Differences in Public and Community Benefit Reporting Requirements

All three reporting frameworks explored above can be considered light touch. Charity public benefit reporting differs in that there is a body of case law supporting how public benefit is interpreted and guidance encompasses both regulatory guidance and accounting standards guidance in the form of the Charities SORP. Furthermore, inclusion of public benefit in the Charities SORP does hold out the possibility for further development of guidance over time as the Charities SORP is subject to regular review and suggested changes are subject to consultation. There is no equivalent to the Charities SORP for community benefit societies that are not charitable or for community interest companies.

Community benefit societies and community interest companies are required to file an annual return or report with the appropriate regulator which includes a statement on their community benefit. Such reporting, however, is not mandated for inclusion in their formal annual reports. In addition, the content of community benefit reports to the regulator is not prescribed, with the result that the quality and content of reports vary and a report of one or two sentences can be accepted practice. Table 3 below provides an overview of the three reporting approaches discussed above and their characteristics.

Table 3: Public/community benefit accountability mechanisms

Characteristic	Charities: Public benefit reporting	CBSs: Community benefit reporting	CICs: Community benefit reporting
Accountability reporting mechanism	Annual report.	Annual return to regulator. Annual report if adopting SORP.	Annual return to regulator.
Narrative reporting guidance	Regulator (based on legislation and case law) and Charities SORP: Trustees' Annual Report.	Regulator. Limited. Charities SORP, if adopted.	Regulator. Limited.
Financial reporting guidance	Charities SORP. Intrinsic to stewardship accounting approach and disclosures on remuneration and related parties.	None. Charities SORP, if adopted.	None.

Implications for Co-operative Accounting

If both social co-operatives and more traditional member-benefit co-operatives and their respective constituencies are to benefit from the development of a co-operative accounting framework, then clear guidance is needed on how to report on community benefit. Current UK legislation and reporting guidance does not clearly define community benefit and does not set out how an organisation should account for its contribution, or lack of it, to creating and sustaining community benefit. While the current reporting regimes provide considerable flexibility for organisations to interpret and develop their own approach, this does not assist with ensuring a reasonable level of accountability to key constituencies.

A co-operative accounting framework that addresses community benefit could assist with improving accountability to members as well as to other internal and external constituencies with an interest in the organisation's activities. Such a framework could promote a common understanding of what community benefit means both for social co-operatives and member-benefit co-operatives and clarify how co-operatives can best meet their related obligations to members and other primary constituencies. Required reporting could include clarifying the nature of a co-operative's community benefit, plans to create and sustain such benefit, actions to date, and associated achievements and results.

Part of the process of developing guidance would be to clarify and differentiate two types of community benefit: community benefit as the primary purpose of the co-operative and community benefit as something additional to and outside of the primary purpose of the co-operative. Both contexts need to be clearly defined. The intended audience for such reporting should also be established. Following on from that, guidance could elaborate type of reporting content expected including desired characteristics of information such as: types of narrative and quantitative content, level of detail, transparency, relevance, verifiability, and comparability.

Further Research Needed

To date there has been limited research on public and community benefit reporting, in relation to charities, community benefit societies and community interest companies respectively. While there are examples of public benefit reporting by community benefit societies that have opted to use the Charities SORP (see for example Camelford Leisure Centre annual report and financial statements 2019), not all do, and we know little about the extent and types of community benefit reporting by social co-operatives in the UK. In conclusion, further studies are needed to examine current community benefit reporting practice across a range of co-operative types, and to explore the potential for developing related co-operative accounting and reporting guidance.

The Author

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