

Start up Community Business Business Banking

You want to set up a community-owned rural business. You have the support from your community. You have the premises lined up. You have the business plan worked out. You have joined Plunkett UK and are being supported to set up a CBS with the FCA. And then someone wants to hand you some cash, what are you going to do?

For many pre-start community-owned rural businesses, the first challenge is how do you become a constituted group, or find one to work with, to open, or have access to, a bank account?

What are the options?

I find that many unincorporated groups simply ask **one of their members** to pay in money into their personal bank account until they have set up a legal form and have their own bank account. There are many reasons why this is a bad idea, it puts a lot of the responsibility on the shoulders of one person, has no security and may even contravene the terms of their account and lacks transparency and fair accountability.

Others may ask their **local Parish Council or a local Charity** if they would allow monies to be paid in to their account and held until the group has its own bank account. This may also allow for payments to be made by the host organisation for expenses incurred by the group, for things like registration costs, surveys and valuations from a ring-fenced budget. An example of this is **The Spot in Ulverston** that started as a project by an unincorporated table tennis association who partnered with the local food bank charity to manage early stage grants in order to apply for regional funding to buy the old auction market hall before setting up as a Community Interest Company.

This sort of unofficial **'fiscal hosting'** can work very well and avoids the need to set up a permanent account that must be closed when becoming incorporated. Some grant making bodies may allow funds to be paid over to a Parish Council bank account for example, as long as they agree to be accountable until the funds can be transferred to the organisations own bank account when incorporated.

More formal financial arrangements, known as ‘fiscal hosting’ is offered by a number of providers, some of which are listed below, and this is particularly suitable for unincorporated groups that need to manage a grant. Fiscal hosting is a service that allows grassroots groups, community initiatives, and emerging non-profits to operate legally and manage funds without needing to set up a separate legal entity right away. There are charges for this service and it can take up to two weeks to set up your account, but it may provide an interim solution for early stage groups receiving grants and donations.

Early stage groups could use a **Crowdfunding** platform helpful in building membership, and audience and processing donations and eventually Community Shares. An example is **The Railway Inn at Norton Bridge** who are raising funds to set up a legal form and pay for professional services. While this does not provide retail banking services, it can certainly **help with funding the set up costs** of legal form registration, surveys, consultations and other professional fees.

Some local **Credit Unions** also offer corporate accounts to community groups to pay in money but do not offer full retail banking services like current accounts or loans.

You may be tempted to set up an online business bank with some of the new providers such as Mettle, Monzo, Tide, Starling or Revolut, but there are some things to consider before doing so. Many only accept sole traders or limited company Directors. Many are not UK based and your money may not be guaranteed under the **FSCS**. Can you set up an Escrow account for money held from Community Share applications? Can you easily transfer to another account without paying fees?

Similarly, some electronic payment platforms also offer banking type services, such as Sum Up. However, the free account has limited functionality and the Plus business account costs £15 per month. Would your account work with any EPoS system or your accounting software?

Much like setting up a legal form, it can be tempting to go for something cheap and quick to set up, only to regret that decision down the line when you need full banking services. Ideally you would be able to apply for a business bank account with a high street bank as an unincorporated association that can be updated when your legal structure is registered. Often the high street banks struggle to recognise less familiar legal forms such as Community Benefit Societies, but there are some that do.

I have usually found that The Cooperative Bank and Unity Trust have a good understanding of the community-ownership sector and may have free, or low fee bank accounts specifically for incorporated community groups. You will still need to have a legal form registered to open one.

I would say that the critical deciding factor should be how easy it will be to convert from a 'Treasurers' or 'Clubs, Charities and Societies' bank account to a business bank account with that bank. Do try to have a real conversation with someone from the bank you want to open an account with, either online, a virtual assistant, website chat or, however unlikely, in person on the phone or in branch to confirm that the bank can help you make the transition.

Ultimately it may be that you will need to wait until your legal structure is registered before being able to open the bank account you really need in the long term. However, having some ability to process cash and grants until then would be beneficial and we hope that the suggestions above will help.

Follow these steps to give yourself the best chance of getting the bank account you need:

1. Adopt a simple constitution
2. Appoint a Treasurer
3. Draft a financial policy
4. Check if you can use a host bank account
5. If not, check if you can get the services you need from a local Credit Union, fiscal hosting service or online bank account as an unincorporated organisation
6. If applying to a retail bank for a Clubs, Societies or Community Group bank account make sure that you will be able to change the name when incorporated and keep your account and not be switched to a costly business account later
7. Register your preferred legal structure as soon as possible

Glossary:

CBS – Community Benefit Society, a mutual corporate legal form registered with the FCA

FCA – The Financial Conduct Authority regulates the financial services industry in the UK

Unincorporated – businesses, groups, or geographic areas that lack a formal, separate legal entity status, such as a corporation

Ring-fenced – monies that are restricted to specific use in the accounts

Fiscal hosting – a service that allows grassroots groups, community initiatives, and emerging non-profits to operate legally and manage funds without needing to set up a separate legal entity right away

Crowdfunding – a method of raising capital for projects, startups, or personal causes by collecting small, voluntary contributions from a large number of people, usually via online platforms

Community Shares – withdrawable, non-transferable share capital, a form of equity uniquely available to co-operative and community benefit societies

Credit Union – a financial co-operative which provides savings, loans and a range of services to its members. It is owned and controlled by the members

FSCS – The Financial Services Compensation Scheme is the UK's statutory compensation scheme for customers of UK authorised financial services firms

Escrow – a contractual arrangement in which a third party receives and disburses money or property for the primary transacting parties, with the disbursement dependent on conditions agreed to by the transacting parties

EPoS – Electronic Point of Sale equipment such as tills, scanners, inventory and payment processes

Helpful links:

VSC Academy (Fiscal Hosting) - <https://vcsacademy.org/fiscal-hosting/>

The Social Change Nest - <https://thesocialchangenest.org/services-initiatives/fiscal-hosting/>

TSIP - <https://www.tsip.co.uk/fiscal-hosting>

Lewisham & Bromley Credit Union - <https://pluscu.co.uk/accounts-for-societies-and-charities>

The Co-operative Bank - <https://www.co-operativebank.co.uk/business/products/bank-accounts/charity-and-community-account>

Unity Trust Bank - <https://www.unity.co.uk/>

UK Crowdfunding - <https://www.ukcfa.org.uk/>

FYCU - <https://www.findyourcreditunion.co.uk/>

If you require further guidance, support or resources, please go to www.plunkett.co.uk or contact us on membership@plunkett.co.uk or 01993 630022

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