

Legislative Statement - Incorporated Societies Bill: Second Reading

Context

The purpose of the Incorporated Societies Bill is to replace the Incorporated Societies Act 1908 (the 1908 Act) with a modern, fit-for-purpose statute. In 2010, the Minister of Justice asked the Law Commission to undertake a review of the 1908 Act and the Commission made a number of recommendations in its final report of 2013. Cabinet subsequently agreed to replace the 1908 Act. By doing this, we make societies more robust, help them govern themselves and provide constructive options when things go wrong.

The Bill retains the best of the 1908 Act, codifies case law to make it more accessible, and fills in gaps where the 1908 Act and case law are underdeveloped. The regime it creates will differ from the current rules in the following key ways:

- the Bill reduces the minimum number of society members from 15 to 10,
- the inclusion of six officers' duties that are modelled on directors' duties in the Companies Act 1993,
- societies must include procedures in their constitutions for resolving disputes,
- with some limited exceptions for smaller organisations, societies must prepare their financial statements in accordance with accounting standards issued by the External Reporting Board.

The 24,000 or so societies registered under the current regime will, once the Bill is adopted, need to actively request re-registration under the new regime. They will have four years from the enactment of the Bill to do so.

Amendments made by select committee

The Economic Development, Science and Innovation Committee has examined the Bill and recommended that it be passed with amendments. These amendments are consistent with the original policy of the Bill, but address some technical issues with the Bill and take the opportunity to make some further improvements to the functioning of the Act. The more notable of these recommended changes to the Bill are as follows:

- Lifting the thresholds set out in clause 96(2) so that more societies will qualify as 'small'. Small societies will benefit from an exemption from the requirement to prepare their financial statements using the standards set by the External Reporting Board. In practice, this will likely save them the cost of hiring an accountant.
- Amending clause 97(a) so that societies that qualify as 'small' can prepare their reports using either accrual or cash accounting.
- Amending clause 24(1) to ensure that societies are able to offer hardship grants and educational scholarships to their members, and that umbrella societies are able to distribute funds to members who are not-for-profit entities.
- Amending clause 40 so that people who are not members of the society can sit on the committee as independent officers (though must remain a minority).