



**COMMUNITY
INTEREST
COMPANIES**

BRIEFING PACK

CONTENTS

FOREWORD.....	3
DEFINING A COMMUNITY	10
THE COMMUNITY INTEREST TEST	13
THE ASSET LOCK	17
THE DIVIDEND CAP	20
CICS AND CHARITIES.....	27
TAX CONSIDERATIONS	31
SOURCES OF FINANCE.....	33
FORMING A NEW COMMUNITY INTEREST COMPANY	36
CONVERTING AN EXISTING COMPANY TO A CIC.....	38
COMMUNITY INTEREST COMPANY FEES FOR ENGLAND, WALES AND SCOTLAND .	42
THE ANNUAL COMMUNITY INTEREST REPORT.....	44
FORM CIC 36.....	47
FORM CIC 37.....	51
MODEL SPECIAL RESOLUTION FOR THE CONVERSION OF A COMPANY TO A CIC (ENGLAND, WALES AND SCOTLAND).....	56
FORM CIC 34 – ANNUAL COMMUNITY INTEREST COMPANY REPORT	60
FORM 10	62
FORM 12	66

FOREWORD

On 1 April 2005 the Secretary of State for Trade and Industry appointed the first Regulator of Community Interest Companies.

On 1 July 2005 the legislation, which provides the rules on the creation and operation of community interest companies (“CICs”), came into force.

The CIC office was opened to receive applications from organisations based in England, Wales and Scotland on 25 July 2005, and in the first year of its operation, over 360 companies were registered as CICs and as at March 2007 nearly 850 have formed.

On 6 April 2007 further legislation came into force making it possible to form, or to convert to, a community interest company in Northern Ireland.

The role of the Regulator’s Office is to:

- To create an awareness of CICs.
- To provide guidance to enable CICs to be formed with the minimum of fuss, and
- To regulate CICs with the minimum of interference so long as they do not fail to meet their obligations both to the law and their community.

This pack contains some information and guidance to help you understand more about CICs; to help you consider whether the formation of a CIC would be suitable for your particular community activities; and, if so, to help you understand some of the implications of registration. Further information is available on our website www.cicregulator.gov.uk and we are available if you

wish to discuss these matters directly with us by telephoning 02920 346 228 or e-mailing cicregulator@companieshouse.gov.uk.

The CIC is seen as significant in facilitating the development and expansion of community orientated activities and a welcomed additional legal form for social enterprises, complementing those already available.

CICs are limited liability company designed for social enterprises. So, it has the familiar company form that has a separate legal identity from its members. Also it is simple to incorporate.

A CIC can be a private company limited by guarantee, or by shares, or public limited company. A CIC limited by shares can pay dividends to its shareholders, though in certain circumstances the dividend may be capped. Crucially the CIC is flexible and can be tailored to your particular needs.

As a limited company a CIC must comply with company law generally, as well as complying with the CIC legal requirements.

The phrase “not for profit” is frequently used when discussing social enterprises. This can be misleading and should only be used in the context of the company not having as its primary purpose the generation of profits for its owners. If a CIC fails to make profits from its activities (or in some way generate sufficient income to cover its running costs) it will eventually fail altogether. Therefore rather than thinking in terms of CICs being non-profit making they should be thought of as making profits for their community purposes.

If a CIC trades, the business activities will need to generate surpluses to support its activities, maintain its assets, make its contribution to the community (and in some cases make a limited return to its investors).

Alternatively, some CICs may well depend on grants or donations to enable it to carry out its social purpose.

The company structure of shareholders and directors and easily understood corporate governance systems will be familiar to those people you deal with, such as, banks, suppliers and advisers. Also, the ability to pay salaries to directors may assist in attracting the right person.

The statutory asset lock provisions prevents the assets and profits being distributed except as permitted by legislation. It provides the confidence to those wishing to fund and deal with CICs that the assets and profits will primarily be devoted to the benefit of the community, rather than rewarding the owners or investors.

An annual CIC report, in general terms, describes the company's activities; who was consulted; and what assets were transferred other than for full consideration; and directors' remuneration. This provides transparency of operation. It also ensures that those affected by and benefiting from the CIC's activities will be properly recognised as stakeholders.

Many CICs will either undertake activities to generate profits to support a community purpose, or will undertake activities that are in themselves a community purpose.

We have received applications the length and breadth of the UK, from Edinburgh to St Austell and from Cardiff to Lowestoft. Applications have been received from (community groups working with) local authorities to established social enterprises, from local village shops to radio stations. CICs are providing services related to city centre regeneration, recycling centres, restaurants and community cafes. They are providing health, transport,

education and environmental services and are benefiting, children with special needs, pensioners and young people.

We would like to emphasise that it is not intended that the Regulator should be a heavy-handed. We see our role, in the Regulator's office, as working with CICs and the social enterprise sector to develop their role in our communities and encourage their use for suitable enterprises.

Useful websites:

Registrar of Companies England, Wales and Scotland

www.companieshouse.gov.uk

Registrar of Companies Northern Ireland

www.detini.gov.uk

Department of Enterprise, Trade and Investment Northern Ireland

www.detini.gov.uk

Office of the Regulator of Community Interest Companies

www.cicregulator.gov.uk

March 2007

THE ROLE OF THE REGULATOR

The Companies (Audit, Investigations and Community Enterprise) Act 2004 establishes the Regulator as an independent public office holder appointed by the Secretary of State for Business, Enterprise and Regulatory Reform. The appointment was subject to an open public recruitment process monitored by the Office of the Commissioner for Public Appointments.

The first Regulator of Community Interest Companies (CICs) was appointed on 1 April 2005. The Regulator's powers are set out in the Act and Regulations. The Act requires the Regulator to discharge her functions in accordance with good regulatory practice.

The Role of the Regulator

The Regulator's main duties are:

- To consider applications to form a CIC;
- To ensure that a CIC complies with its legal obligations; and
- To take enforcement action where serious infringements occur.

The Regulator also has an important role:

- In the development of CICs as a new company type i.e. the brand; and
- In providing help and guidance to CICs, to those people considering setting up a CIC, and to business professionals advising CICs.

Approach to Regulation

It is intended that the CIC regulation will be 'light-touch'. The majority of CICs will have a similar relationship with the CIC Regulator as companies have with the Registrar of Companies (i.e. registration followed by annual returns). The very active regulation that is necessary for charities will not be required for CICs.

However, the Regulator will be able to investigate complaints from stakeholders and will have powers to act if it is found that a CIC is not working in the interest of the community or that the profit/asset lock is not being observed. These powers will include the ability to change the directors or wind up the company.

Tasks of the Regulator

To consider the registration, or conversion, of documents for new CICs referred to him by the Registrar of Companies and to decide whether the companies concerned are eligible to become CICs. Her decision will be based on examination of the community interest statement, the registration documents, such as, the Memorandum and Articles of Association, and the appropriate resolutions in the case for a conversion. Her job is to ensure that the purposes of the company and its constitution comply with the Act and the Regulations and in particular, in her view, it satisfies the community interest test.

The Regulator sees her task as encouraging the formation of CICs; she will not take a bureaucratic approach and will through her office try to resolve any problem informally by letter, telephone, or e-mail and is prepared to consider additional material submitted in writing. Provision of information by letter or e-mail cannot be a substitute for the completion of the appropriate forms and

documents, as only the forms and documents are placed on the public file. She and her staff are happy to discuss general questions prior to an application being made but cannot advise on specific points, or prejudge decisions.

A similar approach will be taken to all other matters upon which the Regulator has to decide, such as, approval of a change to the objects of a CIC, or disposal of assets. In matters that are not specific to particular companies, such as, possible changes to the dividend and interest caps, the Regulator will consult stakeholders before taking action.

The light touch approach to regulation does not envisage pro-active supervision of individual CICs by the Regulator. All CICs are required to file with their accounts an annual CIC report that will be placed on the public register at Companies House or Companies Registry Northern Ireland and will be copied to the Regulator.

It should not be assumed that the filing of this report will automatically make the Regulator aware of any cause for concern about a CIC and members and other interested parties may also wish to draw any such matters to her attention at any time.

The Regulator will consider the CIC report and any complaints and, where necessary, may make further enquiries and take appropriate action. It may, however, often be possible to resolve issues in discussion with the interested parties.

DEFINING A COMMUNITY

The essential feature of a Community Interest Company is that its activities must be for the benefit of the community and it is therefore important that before forming a CIC you have a clear picture of the community you intend to serve.

The Community

A community for CIC purposes can embrace either the community or population as a whole or a definable sector or group of people either in the UK or elsewhere.

However, a company which benefits a group which may be clearly defined, but which a reasonable person might not consider to be a genuine section of the community is unlikely to be eligible to be a CIC (e.g. “my family”, “my friends”, or “regular drinkers of ABC beer”),

It is therefore expected that the community will usually be wider than just the members of the CIC. For example, the community of a CIC formed to run a community bus service would include the whole of the population of the area served not just those residents who had invested in the company.

In most cases the community should be easy to define such as:

- The residents of Oldtown
- People with learning difficulties
- The elderly
- The young unemployed

- Small scale produce growers in Africa
- The XYZ charity
- Sufferers from ABC disease
- People wishing to learn to...
- Youth of Oldtown needing sports facilities
- Redundant car workers

In other cases the purpose of the CIC will in itself suggest a benefit to the whole community such as:

- Research into environmental pollution
- Preservation of wetlands
- Provision of advice services
- Preservation of language/culture
- Encouragement of sport
- Establishing a museum
- Hire of equipment for short term needs
- Support for community projects

In further examples the community may be the beneficiary of surpluses or profits of trading activities which may not themselves be specifically community benefit activities. Such CICs could have purposes described in terms such as:

- Trading to create a surplus to assist...
- Contracting to provide services and using surpluses from this for the benefit of...

This type of activity where the community benefit may be either from the activity itself or the profits of the activity (or both) are areas where the CIC format could be particularly suitable. CICs could for example act as the procurement arm for a group of otherwise unrelated care centres who in turn could benefit by participation in dividends as shareholders or donations from profits if they were themselves asset locked bodies.

A CIC must not be too deeply involved in any form of political activity.

You should note that a company can only be eligible to become a CIC if it satisfies the community interest test. A company will not be eligible if any of its activities benefit only the members of a particular body or the employees of a particular employer, without bringing any benefits (directly or indirectly) to a wider community.

If the community, which your proposed CIC is primarily intended to serve is made up of members of a particular body or employees of a particular employer, you will need to think carefully about this and consider what wider community benefits the proposed CIC can be said to deliver.

THE COMMUNITY INTEREST TEST

Most ordinary companies, even those that provide benefits to the community, are set up and run mainly for the benefit of their own members and employees.

Community Interest Companies are different. Their primary purpose is to provide benefits to the community, rather than to the individuals, who own, run or work in them.

In the legislation, this core principle is set out in terms of the “community interest test”. A company satisfies the community interest test if a reasonable person might consider that its activities (or proposed activities) are carried on for the benefit of the community.

The Community Interest Test

All companies applying to be registered as CICs must provide the Regulator with evidence that they will satisfy the community interest test. To enable the Regulator to decide whether they will satisfy the test, applicants are required to deliver a community interest statement to the Registrar.

Once a company has been registered as a CIC, it must continue to satisfy the test for as long as it remains a CIC. The Regulator may take enforcement action against a CIC if she forms the view that it no longer satisfies the test.

In order to determine whether your company satisfies (or will satisfy) the test, you need to consider:

- The purposes for which it is set up;

- The range of activities in which it will engage; and
- Who will be seen as benefiting from its activities.

The community interest test is a test of the motivation or underlying purpose of a company's activities. In order to satisfy the test a company must show that a reasonable person might consider that the purpose towards which its activities are ultimately directed is the provision of benefits for the community, or a section of the community. Although it is not necessary that each activity carried on by the company must in itself be directly beneficial to the community, it is important that everything that a CIC does should in some sense contribute towards achieving a purpose that is beneficial to the community.

For example, a company whose activities include manufacturing and selling a particular product does not have to show that that product benefits the community – although that might be one way in which it could satisfy the community interest test in relation to these activities. It could equally well satisfy the test by virtue of the fact that the profits from its sales of the product in question are to be devoted to charitable or other community benefit purposes.

However, the legislation provides that there are two kinds of activities in which a company cannot engage if it is to satisfy the community interest test. These are:

- political campaigning and activities intended to support political campaigning and
- activities which a reasonable person might consider to benefit only the members of a particular body or the employees of a particular employer.

Note that there is no prohibition on a CIC doing things that benefit members of a particular body (e.g. its own shareholders), or its own employees (or the employees of another employer). For example, some CICs would be unable to provide much in the way of benefits to the community if they did not also pay salaries to their employees and directors; and some CICs will be better able to realise their community benefit objectives if they can attract investors by paying dividends to their shareholders.

However, a company will fail to satisfy the community interest test if it engages in activities that a reasonable person might consider to benefit e.g. its members or employees without contributing towards any wider community benefit. A company which is established primarily to benefit its members or employees rather than external stakeholders will therefore have to show that it will deliver some wider benefit if it is to be eligible for CIC status.

These wider benefits can arise in several ways as the following examples illustrate:

- a) A company formed to provide its members with a service which meets a pressing social need, or to provide jobs to disadvantaged people who would otherwise be unlikely to find employment, could satisfy the test because its activities would benefit the wider community as well as its members or employees.
- b) A sports club for employees of a business may only satisfy the test if it provides a wider community benefit, for example by making its facilities available to the local community or providing training facilities not otherwise available in the area.
- c) A company formed by the employees of a business solely for their own profit such as a bulk purchasing discount scheme would not satisfy the

test. If, however, the sports club ran a purchasing scheme as an incidental activity which contributed to the community objectives of the club this may not affect its eligibility to be a CIC.

THE ASSET LOCK

The statutory asset lock is a fundamental feature of CICs. It is important that organisations understand the concept before setting up a CIC, as it has permanent long-term consequences.

“Asset Lock” is a general term used to cover all the provisions designed to ensure that the assets of the CIC (including any profits or other surpluses generated by its activities) are, subject to meeting its obligations, either permanently retained within the CIC and used for the community purposes for which it was formed, or transferred to another asset locked body, such as, another CIC or charity.

The provisions restricting the transfer of assets from a CIC at less than market value, which must be included in the memorandum or articles of association (constitutional documents), mean that such transfers may only be made to another asset locked body, or otherwise for the benefit of the community, subject to meeting its obligations.

Any transfer of assets must satisfy certain requirements. This means that, subject to the CIC meeting its obligations, its assets must either be retained within the CIC to be used for the community purposes for which it was formed, or, if they are transferred out of the CIC, the transfer must satisfy one of the following requirements:

- It is made for full consideration (i.e. at market value), so that the CIC retains the value of the assets transferred;
- It is made to another asset locked body (a CIC or registered charity, or non-GB based equivalent) which is specified in the CIC’s memorandum or articles of association;

- It is made to another asset locked body with the consent of the Regulator; or
- It is otherwise made for the benefit of the community.

Provision to this effect, as prescribed in the Regulations, must be included in a CIC's memorandum or articles of association. CICs are permitted to adopt asset lock rules that impose more stringent requirements, provided they also include these basic provisions.

The memorandum or articles may specify an asset locked body. Such a nomination may prove particularly important in the event of the CIC being wound up or dissolved. In the absence of a nomination, the Regulator will have to decide the destination of any remaining assets.

With only very limited exceptions, such as the payment of dividends and the return of paid up capital on liquidation, a CIC's assets cannot be returned to its members unless they are themselves asset locked bodies.

A CIC is, however, a limited company with all the usual duties and obligations of a company and the Asset Lock should not be seen as a bar to the CIC using its assets for normal trading or other business activities and meeting its financial obligations.

For example, a CIC may take on a commercial venture with the purpose of generating profits to support its community benefit objects. If the venture fails and makes losses the CIC must still meet its contractual obligations in regard to the venture even if this means depleting its assets or selling some of them to meet its debts.

The transfer of assets at less than market value must be given a wide interpretation and it should always be remembered that cash is often an

organisation's main asset. Payments for services etc must represent full market value. This means for example that payments to staff and directors must not be disproportionately high in relation to their abilities and the services they perform. Similarly management or other service charges (particularly if provided by associates who are not asset locked bodies) must represent value for money.

There is a clear inter-relationship with the Community Interest Test in that the test may not be seen to be met if a reasonable person might consider that the activities of the CIC are being carried on for the benefit of the company's directors, employees or service providers rather than for the benefit of the community.

The situation is quite different in the relationship between one or more CICs or other asset locked bodies. There is no reason why a CIC should not be run to provide a service to other CICs, charities etc which is delivered at less than the going open market rate providing it covers its outgoings and does not infringe other legal considerations such as wrongful trading or unfair competition.

THE DIVIDEND CAP

The ability of a Community Interest Company to pay dividends to shareholders depends on the constitution of the specific CIC.

In relation to the payment of dividends a CIC limited by shares, or limited by guarantee with a share capital, has the option to adopt the statutory clauses either in schedule 2, or in schedule 3, of the Companies (Audit, Investigations and Community Enterprise) Act 2004.

Schedule 2

A company limited by shares (including a guarantee company with a share capital) with memorandum and articles of association following the Schedule 2 requirements may only pay dividends to other asset locked bodies, or otherwise for the benefit of the community (i.e. it cannot pay dividends to private investors). The amount of dividend is not subject to the Dividend Cap but is subject to the same constraints that apply to an ordinary company such as the rules as to distributable profits. This is a detailed subject beyond the scope of these notes upon which professional advice should be obtained. There are no additional constraints on the payment of dividends provided that:

- Either the Regulator has consented to the payment; or
- The asset-locked body concerned is named, as a possible recipient of the company's assets in its memorandum and articles of association.

Schedule 3

A company limited by shares (including a guarantee company with a share capital) which adopts memorandum and articles of association following the Schedule 3 requirements may pay dividends to shareholders in accordance with the memorandum and articles of association which, unless paid to

another asset locked body, are subject to the Dividend Cap as well as the other constraints mentioned above.

The Dividend Cap

Unlike most companies CICs may only declare a dividend by ordinary or special resolution of the members (i.e. a dividend cannot be declared by the directors alone).

The Dividend Cap strikes a balance between encouraging people to invest in CICs, and the principle that the assets and profits of a CIC should be devoted to the benefit of the community and therefore that the dividends should not be disproportionate to the amount invested and the profits made by the company.

The Cap has three elements:

- The maximum dividend per share which limits the amount of dividend that can be paid on any given share in terms of a percentage of the amount paid up on that share
- The maximum aggregate dividend which limits the total dividend declared in terms of the profits available for distribution
- The ability to carry forward unused dividend capacity from year to year to a limited extent

Amount of First Dividend Caps

The Community Interest Companies Regulations 2005 set the first caps as follows.

Maximum Dividend Cap: that percentage of the paid up value of a share which is 5 percentage points higher than the Bank of England's base lending rate

Aggregate Dividend Cap: 35% of distributable profits. These rates may be varied from time to time by the Regulator after consultation and with the approval of the Secretary of State.

The Bank of England's base lending rate (also referred to as the Repo Rate) is available from its website (<http://www.bankofengland.co.uk/>), which also gives details of what the rate has been in the past.

It should be noted that these caps set maximums. They should not be taken as in any sense suggesting that those who invest in community interest companies are entitled to a particular rate of return on their investment. The caps should also not be seen as limiting companies' discretion as to whether or not to pay dividends at all, or whether to pay a dividend in any given year. Finally, there is no reason why a company should not restrict distributions to lower amounts than would be permitted under the caps in its Memorandum and Articles of Association (constitutional documents), or share prospectus, or offer documents. If the company has for example issued fixed rate preference shares the dividend on those shares will be subject to the caps but if the cap allow a higher rate this does not entitle the shareholders to receive that higher rate.

Maximum Dividend

The maximum dividend per share is fixed by reference to the share dividend cap in force at the time that the share was issued, or, if the share was already in existence on the date the company became a CIC, the cap applicable on that date.

The Cap is expressed as a percentage of the paid up value of the share (the rate). The paid up value of the share is so much of the share's nominal value as has been paid up and any premium paid on that share to the company. Thus if the company issued £1 shares fully paid at a premium of £2.50 a share the paid up value of those shares would be £3.50. This should not be confused with market value; if, for instance, the same share was purchased from an existing shareholder for £5 the paid up value would still remain at £3.50.

The rate for a particular share is fixed for the life of that share and will not change if the rate generally is changed. It can, however, fluctuate if the rate is fixed by reference to another rate that fluctuates (e.g. Bank of England base lending rate plus a fixed percentage).

For example if shares are issued when the Cap is "Bank of England Base Rate plus 3%" and the Bank of England rate at the time is 4% the Cap will be 7%. If the Bank of England Base Rate subsequently rises to 5% the rate for those shares will rise to 8%.

Where the rate is subject to this kind of fluctuation, the rate applicable to any dividend payment is that in force on the first day of the financial year in which the dividend is declared. (This may not be the same as the rate when the dividend is actually declared: for example, if the financial year begins on 1 April when the rate is 7%, but the dividend is paid in October when the rate is 7.25% because the Bank of England has put its Base Rate up by 0.25% in the meantime.)

If more than one dividend is declared in a financial year the total of all such dividends must not exceed the Cap – i.e. if the Cap is 7% on the first day of the financial year the maximum amount of dividend declared over the course of that financial year on a fully paid up £1 share is 7p (which may be paid

either as a single dividend of 7p or, for example, an interim dividend of 3p and a subsequent final dividend of 4p).

Maximum Aggregate Dividend

This element of the Cap is calculated by reference to the aggregate dividend cap in force at the first day of the financial year for which the dividend is declared and is a proportion of the company's distributable profits for that year. Unlike the maximum dividend per share therefore, where the amount payable is fixed for the life of the particular share, the amount of the maximum aggregate dividend will vary from year to year in line with the distributable profits available.

For example if the cap is fixed at 25% and the distributable profits for the year are £2,000, the maximum aggregate dividend for all the company's shares would be £500, but for any particular share the dividend must not exceed the maximum dividend per share. So if the company has issued 5000 fully paid shares, each with a value of £1, but the maximum dividend per share is 9%, the company will not be able to pay a dividend per share of more than 9p per share (i.e. £450 in total, or £50 short of the maximum aggregate dividend).

Carrying Forward Unused Dividend Capacity

The unused dividend capacity is the amount that could have been paid on shares in a financial year but was not paid. For example if a company had £30,000 of £1 shares fully paid and the dividend cap for the shares was 10% the maximum aggregate dividend would be 10p per share, i.e. a total of £3,000 (providing the maximum aggregate dividend was at least £3,000). If the company only declared a dividend of 6p a share the unused capacity would be 4p a share or £1,200.

This unused capacity can be carried forward to subsequent financial years so that in year 2 the company could declare a dividend of up to 14p per share providing the maximum aggregate dividend was at least £4,200. The carrying forward of unused dividend capacity therefore allows a company to pay a larger dividend per share than it otherwise would be able to pay, but does not allow it to pay a larger aggregate dividend than the maximum aggregate dividend for the relevant year.

The ability to carry forward unused dividend capacity is limited to four years i.e. if the unused capacity arising in year 1 is not used by year 5 it ceases to be available for distribution.

Interest Cap

Subject to its memorandum and articles of association a CIC may have the same borrowing powers as any other company and generally will be able to borrow and pay normal commercial rates of interest to lenders. These notes are not concerned with normal lending of this type but with the somewhat rare circumstances where the interest payable on debts or debentures is linked to the performance of the CIC. Such debt is regarded as similar to equity shares and the ability to pay uncapped interest would circumvent the Dividend Cap.

The Act and Regulations therefore provide that payment of such performance related interest should be subject to a cap. The cap is expressed in terms of a percentage rate on the average amount outstanding on any given loan or debenture (debt) and will be the rate in force at the date the agreement for payment of the interest was made, or, for existing debt, the date the company became a CIC. The rate for a particular debt is fixed for the life of that debt and will not change if the rate generally is changed. It can, however, fluctuate if the rate is fixed by reference to another rate that fluctuates (e.g. Bank of England base lending rate plus a fixed percentage).

For example if the agreement is made when the Cap is “Bank of England Base Rate plus 3%” and the Bank of England rate at the time is 4%, the Cap will be 7%. If the Bank of England Base Rate subsequently rises to 5%, the rate for that debt will rise to 8%.

The rate applicable to any interest payment is that in force on the first day of the financial year in which the interest is due and the amount is calculated on the average amount of the debt, as defined in the Regulations, in the 12 months ending on the day before the payment is due.

If for example the company borrowed £100,000, the interest was agreed at 10% of the company turnover, the debt remained at £100,000 all year and the turnover was £130,000 the lender would be entitled under the agreement to £13,000 interest. If, however, the interest cap was 8% the interest payment would be restricted to £8,000.

- The initial interest cap is fixed by the Regulations at “4 percentage points higher than the Bank of England base lending rate”.
- The rate may be varied from time to time by the Regulator with the approval of the Secretary of State.
- It should be noted that if the contractual rate is lower than the interest cap rate this does not entitle the lender to receive the higher cap rate.

CICs AND CHARITIES

Differences between charities and CICs

Charities must be established exclusively for charitable purposes: CICs can be established for any lawful purpose, as long as their activities are carried on for the benefit of the community

Charities have certain tax advantages that CICs do not have. In return for those advantages, charities are subject to more onerous regulation than CICs

The CIC legal form was specifically designed to provide a purpose-built legal framework and a “brand” identity for social enterprises that want to adopt the limited company form.

CICs will be free to operate more commercially than charities (e.g. CICs limited by shares can pay dividends to individual shareholders, subject to a cap), but stakeholders in CICs will still have the assurance of community benefit provided by the asset lock and transparency about their activities ability through the community interest report.

A charity may, however, own a CIC and the CIC would be permitted to pass assets to the charity. This for example enables a CIC to run a charity shop and pass all the profits to the charity that owns it.

Why would an organisation want to be a CIC instead of a charity?

There is no doubt that charitable status is exactly right for many who wish to further charitable objectives and it is likely that most organisations operating for the public benefit (and who are eligible for charity status) will choose to be charities, not least for the fiscal advantages.

The sort of people who will want to set up a CIC will typically be entrepreneurs who want to do good in a form other than charity.

This may be because:

- a) They are looking to work for community benefit with the relative freedom of the non-charitable company form to identify and adapt to circumstances, but with a clear assurance of not-for-profit distribution status.
- b) Members of the board of a charity may only be paid where the constitution contains such a power and it can be considered to be in the best interests of the charity. It means that, in general, the founder of a social enterprise who wishes to be paid cannot be on the board and must give up strategic control of the organisation to a volunteer board, which is often unacceptable.
- c) The definition of community interest that applies to CICs is wider than the public interest test for charity. CICs are specifically identified with social enterprise. Some organisations may feel that consequently this is a more suitable option than charitable status.

Can a CIC convert to charitable status and vice versa?

Although it is technically possible to convert from CIC to charitable status and vice versa, it is not thought there will be much demand for this.

Converting a CIC to a Charity

A CIC, which wishes to convert to a charitable company, will, of course, have to have exclusively charitable purposes and a CIC that becomes a charity would no longer be subject to the community interest test and the Regulator.

Instead it would be subject in England and Wales to the more restrictive provisions for charities and the Charity Commission (in Scotland the Scottish Charity Regulator). In Northern Ireland the position is a little different as there is no corresponding Charity Commission in Northern Ireland. Charities in Northern Ireland apply to the Commissioners of Her Majesty's Revenue and Customs for charitable status for tax purposes.

To consider the conversion the Regulator will require a statement from the Charity Commission, the Scottish Charity Regulator or the Commissioners of Her Majesty's Revenue and Customs that in their opinion, if the special resolutions take effect and the company ceases to be a CIC, the company will be a charity and will not be an exempt charity. For details of the special resolutions required see <http://www.cicregulator.gov.uk/forms.shtml>

Conversion from a charity to a CIC

Please note whereas the Act provides for a charitable company registered in England and Wales to convert to a CIC, that it prohibits such conversion of a Scottish charity or a Northern Ireland charity. It also provides, however, that this prohibition may be repealed by regulations, which would have the effect of bringing into force sections of the Act enabling such conversion. It is expected that regulations enabling the conversion of Scottish charities and Northern Ireland charities, will be considered later.

An existing charitable company in England or Wales that wishes to convert to a CIC will be subject to the same sort of controls as apply at present when a charitable company seeks to use the powers in the Companies Act 1985 to convert to a non-charitable company and additionally on conversion it would lose its tax breaks.

An alternative would be a charity owning a CIC (a wholly owned subsidiary).

Can a company be both a CIC and a charity?

No, an organisation must choose whether it wishes to incorporate as a CIC or a charity. CICs are more lightly regulated than charities but do not have the benefit of charitable status, even if their objects are entirely charitable in nature.

TAX CONSIDERATIONS

CICs will not receive tax breaks from the Inland Revenue by virtue of their legal status. The payment of corporation tax is the responsibility of individual companies, and appropriate professional advice should be sought when considering what your business's tax liabilities are, and how it might be structured in a more tax-efficient way.

It should also be noted that a CIC cannot apply to Inland Revenue for Gift Aid status.

Deductions for tax can often be made against capital expenses and against some of the costs of running a business, such as training. In some circumstances local government may provide discretionary rate relief to social enterprises.

A CIC that donates its surpluses to a charity will be able to deduct the amount of any such donations as a "charge" when working out its profits for corporation tax purposes. This may be of particular interest to those CICs which are set up as the "trading arms" of charities. See the HMRC pamphlet entitled "Giving to charity by business. How businesses can get tax relief" (<http://www.hmrc.gov.uk/pdfs/ir64.pdf>).

In terms of the cost of raising finance, loan finance will sometimes be more tax efficient for a company than equity investment. This may influence the debt and equity levels a CIC chooses.

There is no general exemption from VAT for social enterprises that undertake trading activities. VAT is a tax on turnover ('taxable supplies' over £60,000 for 2005/6), and is based on the nature of the good or service supplied. Enterprises operating without a profit motive are still liable to pay VAT,

however, those engaged in provision of education, health or welfare may find exemptions. Further detail can be found on the HM Revenue and Customs website is www.hmrc.gov.uk.

SOURCES OF FINANCE

A trading enterprise's principal source of financing will usually be its **trading income**. In this way, users of goods and services provided by a CIC will be investing in the ongoing sustainability of the organisation. Cash reserves built up out of profits are available for the benefit of the community or reinvestment in the business.

Grants may be available dependent on the expected activities and impact of a CIC's work. Grants are usually targeted at specific projects or for one off capital purchases. Some grant-makers may provide start-up or running costs, or give funds for investment in property and equipment, or for research and development or training. Although grants have the clear advantage of being non-repayable, conditions attached to them designed to ensure that the money is used for the purposes intended may limit the capacity of an organisation to operate and expand or leverage in commercial finance (for example, some grant-making bodies will not lend to companies limited by shares which have the potential to pay dividends). The dependence on social impact, rather than ability to repay, the risk of donors changing priorities, their short-term nature and payment in arrears often result in grants inhibiting businesses from operating on an effective commercial basis.

Asset based lending is a flexible form of finance which allows businesses to secure funding against debtors (via invoice discounting or factoring), stock, plant and machinery and property. It can be particularly useful to fund seasonal stocking requirements, or to provide increased short-term leverage.

Employee share ownership schemes

Employees may like to invest in shares to take ownership of a business. There are certain tax concessions to facilitate this, however, there is also a risk for employees: if they are asked to invest in their employer only to find

that if the business becomes insolvent they have lost their savings as well as their job.

Charges on Assets

CICs are governed by company law. Where permitted by its constitution, a company can **mortgage** its assets to a lender in a wider and more flexible way than an unincorporated association, partnership or sole trader can. A mortgage by a company (usually called a charge) over land, vehicles and other property has to be registered at Companies House or Companies Registry for Northern Ireland within 21 days of its creation.

Companies and CICs can give a 'floating charge' which applies to assets which fluctuate e.g., stock or debtors. The floating charge hangs like a net above the assets charged. At the moment the charge is triggered or 'crystallises', the net drops and covers all the charged assets at that moment. The floating charge is only triggered when certain conditions set out in the terms of the charge or loan facility under which the charge was given take effect.

Borrowing may entail providing debt **covenants** to lenders restricting the use of assets financed by the loan, dividend payments and further borrowing. Such covenants restrict the flexibility of the borrower and need careful consideration, particularly where community assets are at risk should loans not be repayable.

Lenders to the Third Sector

The appropriate type and source of finance is always dependent on a company's circumstances – we recommend that professional advice be taken. The high street banks are the most significant overall providers of funding and

financial services to small and medium-sized enterprises. Most have dedicated teams supporting social / community enterprises.

At the national level, there are some financial institutions that look particularly favourably on social enterprise: www.charitybank.org; www.triodos.co.uk; www.icof.org.uk; www.lif.org.uk; www.primeinitiative.org.uk; www.princes-trust.org.uk; www.street-uk.com.

Government supported investment funds appropriate for some social enterprises include Adventure Capital Fund and Futurebuilders. The Small Firms Loan Guarantee scheme (www.dti.gov.uk/sflg) is a UK-wide, government-backed scheme to provide guarantees on loans to small firms with viable business proposals that are unable to obtain conventional finance because of a lack of security. Loans are provided by banks; the government guarantees 75 per cent of the loan.

Regional social enterprise support agencies can put you in touch with appropriate finance providers operating below the national level (see www.socialenterprise.org.uk/regions.aspx for details).

Community Development Finance Institutions have been established expressly to support social enterprises, and operate in many different parts of the country, offering a variety of services, including loans. The government provides relief to tax-paying investors choosing to invest in CDFIs (see www.cdfa.org.uk for details).

For more information please see “Financing CICs” chapter 7 of our guidance available on our website www.cicregulator.gov.uk. Alternatively you may want to look at “links” in the top right hand corner of our website, which provides links to other relevant websites.

FORMING A NEW COMMUNITY INTEREST COMPANY

The Companies House booklet “Company Formation” provides information on how to form a new company. The basic procedure is the same for a CIC as for any other company but applicants are required to submit some additional documents. The Registrar of Companies cannot incorporate the company as a CIC until the Regulator has decided that it is eligible to be a CIC and notified the Registrar of her decision.

To form a new company as a CIC you need to deliver the following documents to the appropriate Registrar of Companies for England & Wales, Scotland or Northern Ireland together with the appropriate fee. Application will be rejected if a cheque for the fee is not delivered with the documents:

- Memorandum of association and articles of association that comply with the Regulations (NB: a CIC must register Articles and cannot rely on Table A of the Companies Act).
- Form CIC 36, which includes a community interest statement, and a declaration that the company will not be an excluded company i.e. politically motivated.
- Form 10 gives details of first directors and company secretary and the intended address of the registered office.
- Form 12, which is a statutory declaration of compliance with the legal requirements for formation of a company.
- Cheque for £35 payable to Companies House.

Where to obtain forms

- a) Forms 10, 12, CIC 36 and model memorandum and articles of association, including explanatory notes, can be obtained free of charge from the Regulator's website www.cicregulator.gov.uk

- b) Alternatively, for the Forms 10 and 12 you may wish to contact the Registrar of Companies Companies House website www.companieshouse.gov.uk, or Companies House Contact Centre on 0870 33 33 636, or by email at enquiries@companies-house.gov.uk.

- c) They are also available from law stationers and company registration agents.

The involvement of the Regulator means that the premium same day registration service is not available for a CIC although every effort will be made to keep the registration time to a minimum consistent with the Regulator being satisfied as to the company's eligibility to be a CIC.

CONVERTING AN EXISTING COMPANY TO A CIC

To convert an existing company to a CIC you must deliver to the Registrar of Companies with the appropriate fee (if a cheque for the fee is not enclosed with the documents the application will be rejected):

- A copy of the special resolution to alter the company memorandum to state that it is to be a CIC.
- A copy of the special resolutions necessary to alter the memorandum and articles of association so that they conform to the requirements for a CIC memorandum and articles of association.
- A copy of the special resolution changing the name of the company to one of the CIC designations. See Company House or Companies Registry Northern Ireland booklet “Company Names”. There is no need to invent a new name unless you want to; a simple change from “Ltd” to “c.i.c.” will be enough.
- Memorandum and articles of association, incorporating the changes made by the resolutions, and that comply with the Regulations 2005.
- A Form CIC37, which includes a community interest statement, a declaration that the company will not be an excluded company i.e. not politically motivated and a declaration that the company is not a charity.
- Cheque for £25 payable to Companies House.

Where to obtain forms

- a) Form CIC37, model resolutions and model memorandum and articles of association, including explanatory notes can be obtained free of charge from the Regulator's website www.cicregulator.gov.uk

The involvement of the Regulator means that the premium same day registration service is not available for a CIC although every effort will be made to keep the registration time to a minimum consistent with the Regulator being satisfied as to the company's eligibility to be a CIC.

The Company House booklet "Resolutions" explains the requirement for passing resolutions. Detailed procedures for holding meeting of members and passing resolutions will be included in the existing articles of association of the company. Briefly, to pass a special resolution 21 days notice must be given to the members and a majority of three fourths of members voting at the meeting is required.

The resolutions must be printed or be in some other form approved by the Registrar of Companies and must be delivered to the appropriate Registrar for England & Wales, Scotland or Northern Ireland together with a reprinted memorandum and articles of association incorporating the changes made by the resolutions.

It is possible (even if the necessary special resolutions are passed) that some dissenting members may be sufficiently aggrieved at the decision to convert to a CIC that they will take legal action. This could, for example, be on the grounds that they have been unfairly prejudiced as a result of the reduction in their rights to dividends or other distributions resulting from conversion to CIC status. Depending on the view taken by the Court, such action could undermine the conversion project. It may therefore be useful to informally canvas member's views on the conversion, or take legal advice, before incurring the expense of the formal process.

The possibility of legal actions being taken by minority shareholders also has some specific consequences for the timing of the conversion process, which are relevant in all cases. All companies are required to include in their memorandum of association a statement of the company's objects i.e. the purposes for which they have been formed. In some cases these are very detailed; in other cases, they are drafted in very general terms (e.g. "to operate as a general commercial company"). CICs are not required to adopt any particular provisions in the objects clauses of their Memorandum, but when converting an existing company to a CIC, you may wish to change its objects in some way, particularly if the company has not previously operated as a social enterprise. In order to protect the interests of minority shareholders, where changes are being made to the company's objects members have the right to apply to the Court within 21 days of the passing of the resolutions for the alterations to be cancelled. If such an application is made to the Court, the special resolution altering the objects does not take effect except in so far as the Court confirms it.

The time for filing the resolutions etc therefore varies as follows:

- Where there are no changes to the objects, within 15 day of passing the resolutions
- Where there are changes to the objects but no application is made to the Court, not earlier than 22 days or later than 36 days of passing the Resolutions
- Where an application is made to the Court not later than 15 days after the date on which the Court determines the application or such later date as the Court may order

All the resolutions and other documents must be submitted to the Registrar of Companies at the same time together with the appropriate fees.

The changes take effect on the date that the Registrar records the resolutions. The Registrar of Companies will also issue a new certificate of incorporation stating that the company is a CIC (after the Regulator has decided that it is eligible to become a CIC).

It should be noted that the issue of a new certificate of incorporation does not have any effect on the made-up date for the company's annual return or the company's accounting reference date. As the company's CIC Report is filed with the annual accounts a CIC Report is required for the accounting period in which the conversion is made. If you are considering converting late in an accounting period you may wish to defer conversion rather than to have to prepare a CIC Report covering a very short period.

All copies of the memorandum and articles of association issued by the company after the resolutions take effect must be in the revised form submitted to the Registrar of Companies.

Converting a company to a CIC brings new constraints and obligations. You are recommended to take professional legal or accountancy advice on whether a CIC, is the best way to run your enterprise before proceeding with the conversion of your company.

COMMUNITY INTEREST COMPANY FEES FOR ENGLAND, WALES AND SCOTLAND

The fees below are payable by CICs registered in England, Wales and Scotland on delivery of the documents relating to the listed events. A cheque, for the amount in the "Total" column, should be delivered with the documents to the Registrar of Companies. The cheque should be made payable to "Companies House".

EVENT	COMPANIES HOUSE FEE	REGULATOR'S FEE	TOTAL	NOTE
	£	£	£	
Incorporation as a CIC	20	15	35	
Conversion of company to a CIC	10	15	25	1
Conversion including a change of status (re-registration)	20	15	35	2
Change of status of existing CIC (re-registration)	20		20	3
Change of name	10		10	
Annual return (paper)	30		30	
Annual return (electronic)				
Annual accounts with CIC report		15	15	
Voluntary dissolution	10		10	

NOTES

1. There is no CH conversion fee as such but as the conversion involves a change of name the £10 change of name fee is payable
2. Change of status (re-registration) is where a company changes from a public to a private company or vice versa in which case the re-registration fee of £20 is payable but the change of name fee is not charged providing

the change is only from Limited (Ltd) to Public Limited Company (PLC) or vice versa. If a more substantial change is made in the name the £10 change of name fee would have to be paid.

3. This fee is payable where a CIC changes from a public to private company or vice versa. Full details of the fees charged by the Registrar are available from Companies House website www.companieshouse.gov.uk.
5. The Regulator's fees are prescribed in Part 10 of, and Schedule 5 to, the Regulations.

THE ANNUAL COMMUNITY INTEREST REPORT

All the directors of a Community Interest Company have an important additional obligation to prepare an annual community interest company report to be filed with their accounts. The purpose of the report is to show that the CIC is still satisfying the Community Interest Test, and that it is engaging appropriately with its stakeholders in carrying out activities that benefit the community.

The accounting period for a company and time in which the accounts and CIC Report must be filed are determined by the company's accounting reference date. It should be noted that the issue of a new certificate of incorporation on conversion of an existing company to a CIC does not change the accounting reference date. This means that where a company is converted a CIC Report will be required for the accounting period in which the conversion took place even if the company was a CIC for only a short time during that period.

Community Interest Report

The detailed form of the report will be a matter for the company but, as with the annual accounts, the Regulator considers that CICs should aspire to provide the fullest possible information rather than simply comply with the minimum requirements; as good practice it should, for example, outline how the CIC has ensured that the assets have been solely used for the benefit of the community the CIC serves.

Although the report is a separate document from the company accounts there is no reason why it should not be sent to shareholders and other stakeholders with the directors' report and annual accounts.

The report is delivered to the Registrar of Companies who will file it on the public record and pass a copy to the Regulator. Consideration of community

interest company reports is an important element in the Regulator's monitoring role and in showing that the CIC continues to satisfy the community interest test.

Minimum Requirements

The Regulations prescribe minimum requirements. These include:

- Information on the remuneration of the directors such as the total aggregate pay of directors, details of the highest paid director (if the aggregate pay of directors exceeds £200,000) and the number of directors who have received share benefits. (This information does not have to be duplicated in the report if it is included in the accounts and the report states that the information may be found in the accounts)
- Details of what the CIC has done to benefit the community
- Details of how it has involved its stakeholders in its activities
- Details of dividends declared (or proposed) on shares and performance related interest paid and their compliance with the capping rules. (If such dividends or interest have been paid you should refer to the precise requirements in Regulations 27 and 28 of the Community Interest Company Regulations 2005)
- Information on the transfer of assets to another asset locked body or otherwise at less than market value for the benefit of the community.

Delivery and Form of CIC Report

Although the report has to be submitted **with** the annual accounts it must be in a separate document and be accompanied by the £15 fee

For official use
(Please leave blank)

*Please
complete in
typescript,
or in bold
black
capitals.*

Company Name in
full

SECTION A: DECLARATIONS ON FORMATION OF A COMMUNITY INTEREST COMPANY

1. We/I, the undersigned, declare that the company whose proposed name appears above will not be:

- (a) a political party;
- (b) a political campaigning organisation; or
- (c) a subsidiary of a political party or of a political campaigning organisation.

(as defined in regulation 2 of the Community Interest Company Regulations 2005 ("**the Regulations**"). (See note 1)

2. We/I further declare that the company will carry on its activities for the benefit of the community, or a section of the community, (as defined in section 35 of the Companies (Audit, Investigations and Community Enterprise) Act 2004 ("**the Act**") and the Regulations. Please insert a short description of the community, or section of the community, which it is intended that the company will benefit, in the space provided below (See note 2):

The company's activities will provide benefit to...

COMPANY NAME

--

SECTION B: COMPANY ACTIVITIES

Please indicate how it is proposed that the company's activities will benefit the community (or a section of the community). Please provide as much detail as possible to enable the Regulator to make a properly informed decision about whether your company is eligible to be a community interest company (See note 3).

Activities (Tell us here what the company is being set up to do)	How will the activity benefit the community? <i>(The community will benefit by...)</i>
If the company makes any surplus it will be used for...	

(Please continue on separate continuation sheet if necessary.)

**Declarations on Formation of a
Community Interest Company**

COMPANY NAME

SECTION C: SIGNATORIES

**Each person
who will be a
first director
of the
company
must sign the
declarations.**

Signed

Date

Signed

Date

Signed

Date

Signed

Date

(Please continue on separate continuation sheet if necessary.)

CHECKLIST

These declarations must be accompanied by the following documents under section 10 of the Companies Act 1985 or Article 21 of the Companies (Northern Ireland) Order 1986 – have you included them with your application?

- (a) Memorandum and articles of association, which comply with requirements imposed by section 32 of the Act and Part 3 of the Regulations or which are otherwise appropriate in connection with becoming a community interest company
- (b) Form 10 or Form 21 - First directors and secretary and intended situation of registered office
- (c) Form 12 or Form 23 - Declaration on application for registration
- (d) Any completed continuation sheets

You do not have to give any contact information in the box opposite but if you do, it will help the Registrar of Companies to contact you if there is a query on the form. The contact information that you give will be visible to searchers of the public record.

	Tel
DX Number	DX Exchange

When you have completed and signed the form please send it to the Registrar of Companies

Companies House, Crown Way, Cardiff, CF14 3UZ

DX 33050 Cardiff

for companies registered in England and Wales

Or

Companies House, 37 Castle Terrace, Edinburgh, EH1 2EB

DX235 Edinburgh

for companies registered in Scotland

or **LP – 4 Edinburgh 2**

Or

Companies Registry, Department of Enterprise, Trade and Investment, Waterfront Plaza, 8 Laganbank Road Belfast BT1 3BS

for companies registered in Northern Ireland

NOTES

1. A company is not eligible to be formed as a community interest company if it will be an “excluded company”. If you are not sure whether the company which you wish to form falls into any of these categories, you should refer to the definitions of the terms “political party”, “political campaigning organisation” and “subsidiary” (and of the related terms “election”, “governmental authority”, “public authority” and “referendum”) in Regulation 2 of the Regulations before completing this form.
2. Insert a short description of the community or section of the community which it is intended that the company will benefit (e.g. “the residents of Oldtown” or “those suffering from XYZ disease”).
3. This form will be placed on the public record at Companies House or Companies Registry Northern Ireland. Any information relevant to the application that you do not wish to appear on the public record, should be described in a separate letter addressed to the CIC Regulator and delivered to the Registrar of Companies with the other formation documents.

**Declarations on Conversion to a
Community Interest Company**

FORM CIC 37

**CIC 37
Declarations on Conversion to a Community Interest
Company**

***Please
complete in
typescript,
or in bold
black
capitals.***

Company Number

**Company Name in
full**

**Proposed Company
Name in full**

**Declarations on Conversion to a
Community Interest Company**

COMPANY NUMBER

SECTION A: DECLARATIONS ON CONVERSION TO A COMMUNITY INTEREST COMPANY

1. We/I, the undersigned, declare that the company whose name appears above is not:

- (a) a political party;
- (b) a political campaigning organisation; or
- (c) a subsidiary of a political party or of a political campaigning organisation. (as defined by regulation 2 of the Community Interest Company Regulations 2005) ("**the Regulations**"). (See note 1.)

2A. We/I further declare that the company is not a charity (as defined in the Charities Act 1993) or a Scottish charity or Northern Ireland charity (as defined in section 63(1) of the Companies (Audit, Investigations and Community Enterprise) Act 2004 ("**the Act**").

2B. We/I further declare that:

- (a) the company is not a Scottish charity or a Northern Ireland charity (as defined in sections 40 and 40A of the Companies (Audit, Investigations and Community Enterprise) Act 2004 ("**the Act**") (see note 2); and
- (b) the Charity Commissioners have given the company written consent to change its name to comply with section 33 of the Act. (See note 3)

[Note: you must delete either declaration 2A or declaration 2B, but not both of them. (See note 4)]

3. We/I further declare that the company will carry on its activities for the benefit of the community, or a section of the community, (as defined in section 35 of the Companies (Audit, Investigations and Community Enterprise) Act 2004 ("**the Act**") and the Regulations. Please insert a short description of the community, or section of the community, which it is intended that the company will benefit, in the space provided below (See note 5):

The company's activities will provide benefit to...

**Declarations on Conversion to a
Community Interest Company**

COMPANY NUMBER

SECTION B: COMPANY ACTIVITIES

Please indicate how it is proposed that the company's activities will benefit the community (or a section of the community). Please provide as much detail as possible to enable the Regulator to make a properly informed decision about whether your company is eligible to become a community interest company (see note 6).

Activities (Tell us here what the company is being set up to do)	How will the activity benefit the community? <i>(The community will benefit by...)</i>
If the company makes any surplus it will be used for...	

(Please continue on separate continuation sheet if necessary.)

**Declarations on Conversion to a
Community Interest Company**

COMPANY NUMBER

SECTION C: SIGNATORIES

Each person who is a director of the company must sign the declarations.

Signed	<input style="width: 250px; height: 35px;" type="text"/>	Date	<input style="width: 120px; height: 35px;" type="text"/>
Signed	<input style="width: 250px; height: 35px;" type="text"/>	Date	<input style="width: 120px; height: 35px;" type="text"/>
Signed	<input style="width: 250px; height: 35px;" type="text"/>	Date	<input style="width: 120px; height: 35px;" type="text"/>

(Please continue on separate continuation sheet if necessary.)

CHECKLIST

These declarations must be accompanied by the following documents – have you included them with your application?

- (a) Special resolution to alter the company’s memorandum to state that it is to be a community interest company
- (b) Special resolutions under the Companies Act 1985 or the Companies (Northern Ireland) Order 1986 to make such alterations of the company’s memorandum and articles as the company considers necessary to comply with requirements imposed by section 32 of the Act and Part 3 of the Regulations or which are otherwise appropriate in connection with becoming a community interest company
- (c) Special resolution to change the company’s name to comply with section 33 of the Act
- (d) Copy of the memorandum and articles of the company, as altered by the special resolutions
- (e) Any completed continuation sheets

You do not have to give any contact information in the box opposite but if you do, it will help the Registrar of Companies to contact you if there is a query on the form. The contact information that you give will be visible to searchers of the public record.

	Tel
DX Number	DX Exchange

When you have completed and signed the form please send it to the Registrar of Companies

Companies House, Crown Way, Cardiff, CF14 3UZ

DX 33050 Cardiff

for companies registered in England and Wales

Or

Companies House, 37 Castle Terrace, Edinburgh, EH1 2EB

DX235 Edinburgh

for companies registered in Scotland

or **LP – 4 Edinburgh 2**

Or

Companies Registry, Department of Enterprise, Trade and Investment, Waterfront Plaza, 8 Laganbank Road Belfast BT1 3BS

for companies registered in Northern Ireland

NOTES

1. A company is not eligible to become a community interest company if it is an “excluded company”. If you are not sure whether your company falls into any of these categories, you should refer to the definitions of the terms “political party”, “political campaigning organisation” and “subsidiary” (and of the related terms “election”, “governmental authority”, “public authority” and “referendum”) in regulation 2 of the Regulations before completing this form.
2. A Scottish charity is a company, which is a Scottish charity. A Scottish charity is a body entered in the Scottish Charity register, kept by the Office of the Scottish Charity Regulator under the Charities and Trustee Investment (Scotland) Act 2005.
3. Northern Ireland charity is a company, which is a Northern Ireland charity. A Northern Ireland charity is a body that has applied to the Inland Revenue and been granted charitable status for tax purposes.
4. Scottish charities and Northern Ireland charities may not at present become community interest companies (although this is expected to change). The permission of the Charity Commissioners is required before a charitable company, which is a charity under the law of England, and Wales can change its name to become a community interest company.
5. A community interest company cannot benefit from charitable status. An existing company which wishes to become a community interest company must either not have charitable status (in which case delete declaration 2B) or must satisfy the criteria set out in paragraph 2B (in which case delete declaration 2A).
6. Insert a short description of the community or section of the community which it is intended that the company will benefit (e.g. “the residents of Oldtown” or “those suffering from XYZ disease”). This form will be placed on the public records at Companies House or Companies Registry Northern Ireland.
7. This form will be placed on the public record at Companies House or Companies Registry Northern Ireland. Any information relevant to the application that you do not wish to appear on the public record, should be described in a separate letter addressed to the CIC Regulator and delivered to the appropriate Registrar of Companies for England & Wales, Scotland or Northern Ireland with the other conversion documents.

**MODEL SPECIAL RESOLUTION FOR THE CONVERSION OF A
COMPANY TO A CIC (ENGLAND, WALES AND SCOTLAND)**

Please note that no liability for any loss or damage arising from the use of the model special resolutions will be accepted by the Regulator, her staff or her legal advisors.

**MODEL SPECIAL RESOLUTIONS
CONVERSION FROM AN "ORDINARY" LIMITED COMPANY TO A
COMMUNITY INTEREST COMPANY**

Company no. [*insert number*] _____

THE COMPANIES ACT 1985
COMPANY LIMITED BY SHARES / GUARANTEE [*delete as appropriate*]

SPECIAL RESOLUTION
OF
[*insert company name*]

LIMITED/PUBLIC LIMITED COMPANY [*delete as appropriate*]

Passed [*insert date*]

At a general meeting of the above company, duly convened and held at
[*insert address*]

_____ on [*insert date*]
_____ at [*insert time*] _____ am/pm the following
resolution was passed as a special resolution.

RESOLUTION

That:

- (1) The following clause be added to the company's memorandum of association:

" [*insert clause number*] _____
[*insert Company Name*]

_____ **Community
interest company**

The company is to be a community interest company."

- (2) The company's name be changed to:

[*insert Company Name*]

_____ community
interest company / c.i.c. / community interest public limited
company / community interest p.l.c. [*delete as appropriate*]

- (3) The company's memorandum and articles of association be altered so as to take the form of the memorandum and articles of association attached to this resolution, in substitution for, and to the exclusion of, any memorandum or articles of association of the company previously registered with the Registrar of Companies.

.....
CHAIRMAN

DATE

NOTES

- (1) On the formalities required when an existing company becomes a CIC, see generally section 37 of the Companies (Audit, Investigations and Community Enterprise Act) 2004 and Chapters 4.2, 5.1 and 5.3 of the Regulator's guidance notes (available from the website www.cicregulator.gov.uk).
- (2) This precedent is drafted as a certificate of passing of the special resolutions which a company must pass as part of the process of becoming a CIC. It is to be signed by the chairman of the general meeting at which the special resolutions are passed, certifying that the meeting was duly convened and the resolutions duly passed. As such it is the sort of document which should be forwarded to the Registrar of Companies to show that the resolutions have been passed as required.
- (3) Section 32 obliges every CIC to include in its memorandum a statement that it is to be a CIC. Section 37(1)(c) and section 33 of the Act oblige companies converting to become CICs to change their names to include one of the prescribed CIC corporate designations rather than "limited" or "plc". In addition, section 32 of the Act, and regulations made under it (see Part 3 of, and Schedules 1 to 3 to, the Community Interest Company Regulations 2005) prescribe that certain provisions relating to the governance of the company, and transfers of its assets (the "prescribed provisions"), must be included in CICs' memoranda or articles.
- (4) The precedent resolution complies with all these requirements. You may also want to make other changes (for example to the company's objects). Broadly speaking, any provision of the company's memorandum and articles can be changed by special resolution. However, there are certain exceptions to this:
 - (i) the clause in the memorandum which specifies whether the company's registered office is to be located in England and Wales, Wales or Scotland;
 - (ii) the "subscriber clause" in the memorandum identifying the original subscribers to the memorandum and details of the guarantee they have given (if the company is limited by guarantee) or the shares they have agreed to take (if the company is limited by shares); and

- (iii) any clause which the memorandum states is unalterable, or can only be altered by some procedure more onerous than the passing of a special resolution.
- (5) With the exception of the change of name and the statement of CIC status, the precedent assumes that, rather than setting out each change introduced in the memorandum and articles as a result of section 32 and the Regulations, the resolution will simply substitute a complete new form of memorandum and articles which includes all the changes. If, instead, you wish to introduce the prescribed provisions required by the Regulations (see note 3 above) piecemeal, you will need to add resolutions to that effect. But in any event, you must file a consolidated text of the memorandum and articles as altered by any special resolution: it is an offence not to do so (see section 18 of the Companies Act 1985).

CIC 34

Community Interest Company Report

	For official use <i>(Please leave blank)</i>	
<i>Please complete in typescript, or in bold black capitals.</i>	Company Name in full	
	Company Number	
	Year Ending	

This template illustrates what the Regulator of Community Interest Companies considers to be best practice for completing a simplified community interest company report. All such reports must be delivered in accordance with section 34 of the Companies (Audit, Investigations and Community Enterprise) Act 2004 and contain the information required by Part 7 of the Community Interest Company Regulations 2005. For further guidance see chapter 8 of the Regulator's guidance notes and the alternate example provided for a more complex company with more detailed notes.

PART 1 - GENERAL DESCRIPTION OF THE COMPANY'S ACTIVITIES

In the space provided below, please insert a general account of the company's activities in the financial year to which the report relates, including a fair and accurate description of how they have benefited the community, or section of the community, which the company is intended to serve.

(If applicable, please just state "A social audit report covering these points is attached").

(Please continue on separate continuation sheet if necessary.)

PART 2 – CONSULTATION WITH STAKEHOLDERS (See example with full notes)

Please indicate who the company’s stakeholders are; how the stakeholders have been consulted and what action, if any, has the company taken in response to feedback from its consultations? If there has been no consultation, this should be made clear.

(If applicable, please just state “A social audit report covering these points is attached”).

PART 3 – DIRECTORS’ REMUNERATION if you have provided full details in your accounts you need not reproduce it here. Please confirm that, “There were no other transactions or arrangements in connection with the remuneration of directors, or compensation for director’s loss of office, which require to be disclosed” (See example with full notes).

PART 4 – TRANSFERS OF ASSETS OTHER THAN FOR FULL CONSIDERATION e.g. Donations to outside bodies (See example with full notes)

(Please continue on separate continuation sheet if necessary.)

(N.B. Please enclose a cheque for £15 payable to Companies House or the Department of Enterprise, Trade and Investment, as appropriate)

PART 5 - SIGNATORY

The original report must be signed by a director or secretary of the company

Signed

Date

Office held (delete as appropriate) Director/Secretary

You do not have to give any contact information in the box opposite but if you do, it will help the Registrar of Companies to contact you if there is a query on the form. The contact information that you give will be visible to searchers of the public record.

Tel	
DX Number	DX Exchange

When you have completed and signed the form please send it to the Registrar of Companies:
Companies House, Crown Way, Cardiff, CF14 3UZ **DX 33050 Cardiff**
for companies registered in England and Wales

or

Companies House, 37 Castle Terrace, Edinburgh, EH1 2EB **DX235 Edinburgh**
for companies registered in Scotland **or LP – 4 Edinburgh 2**

or

Companies Registry, Department of Enterprise, Trade and Investment, Waterfront Plaza, 8 Laganbank Road Belfast BT1 3BS
for companies registered in Northern Ireland



Companies House
for the record

10

*Please complete in typescript,
or in bold black capitals.*

CHWP000

Notes on completion appear on final page

First directors and secretary and intended situation of registered office

Company Name in full

Proposed Registered Office

(PO Box numbers only, are not acceptable)

Post town

County / Region

Postcode

If the memorandum is delivered by an agent for the subscriber(s) of the memorandum mark the box opposite and give the agent's name and address.

Agent's Name

Address

Post town

County / Region

Postcode

Number of continuation sheets attached

You do not have to give any contact information in the box opposite but if you do, it will help Companies House to contact you if there is a query on the form. The contact information that you give will be visible to searchers of the public record.

Tel

DX number

DX exchange

Companies House receipt date barcode
***This form has been provided free of charge
by Companies House***

When you have completed and signed the form please send it to the Registrar of Companies at:

Companies House, Crown Way, Cardiff, CF14 3UZ DX 33050 Cardiff
for companies registered in England and Wales

or

Companies House, 37 Castle Terrace, Edinburgh, EH1 2EB
for companies registered in Scotland

DX 235 Edinburgh
or LP - 4 Edinburgh 2

Company Secretary (see notes 1-5)

Company name

NAME *Style / Title

*Honours etc

* Voluntary details

Forename(s)

Surname

Previous forename(s)

Previous surname(s)

†† Tick this box if the address shown is a service address for the beneficiary of a Confidentiality Order granted under section 723B of the Companies Act 1985 otherwise, give your usual residential address. In the case of a corporation or Scottish firm, give the registered or principal office address.

Address ††

Post town

County / Region

Postcode

Country

I consent to act as secretary of the company named on page 1

Consent signature

Date

Directors (see notes 1-5)

Please list directors in alphabetical order

NAME *Style / Title

*Honours etc

Forename(s)

Surname

Previous forename(s)

Previous surname(s)

†† Tick this box if the address shown is a service address for the beneficiary of a Confidentiality Order granted under section 723B of the Companies Act 1985 otherwise, give your usual residential address. In the case of a corporation or Scottish firm, give the registered or principal office address.

Address ††

Post town

County / Region

Postcode

Country

Day Month Year

Date of birth

--	--	--	--	--	--	--	--

Nationality

Business occupation

Other directorships

I consent to act as director of the company named on page 1

Consent signature

Date

Notes

1. Show for an individual the full forename(s) NOT INITIALS and surname together with any previous forename(s) or surname(s).

If the director or secretary is a corporation or Scottish firm - show the corporate or firm name on the surname line.

Give previous forename(s) or surname(s) except that:

- for a married woman, the name by which she was known before marriage need not be given,
- names not used since the age of 18 or for at least 20 years need not be given.

A peer, or an individual known by a title, may state the title instead of or in addition to the forename(s) and surname and need not give the name by which that person was known before he or she adopted the title or succeeded to it.

Address:

Give the usual residential address.

In the case of a corporation or Scottish firm give the registered or principal office.

Subscribers:

The form must be signed personally either by the subscriber(s) or by a person or persons authorised to sign on behalf of the subscriber(s).

2. Directors known by another description:

- A director includes any person who occupies that position even if called by a different name, for example, governor, member of council.

3. Directors details:

- Show for each individual director the director's date of birth, business occupation and nationality.
The date of birth must be given for every individual director.

4. Other directorships:

- Give the name of every company of which the person concerned is a director or has been a director at any time in the past 5 years. You may exclude a company which either **is** or at **all times during the past 5 years**, when the person was a director, **was**:
 - dormant,
 - a parent company which wholly owned the company making the return,
 - a wholly owned subsidiary of the company making the return, or
 - another wholly owned subsidiary of the same parent company.

If there is insufficient space on the form for other directorships you may use a separate sheet of paper, which should include the company's number and the full name of the director.

5. Use Form 10 continuation sheets or photocopies of page 2 to provide details of joint secretaries or additional directors.



Companies House

for the record

12

Declaration on application for registration

Please complete in typescript, or in bold black capitals.

CHWP000

[Empty box for registration number]

Company Name in full

[Empty box for company name]

I, [Empty box] of [Empty box]

† Please delete as appropriate.

do solemnly and sincerely declare that I am a † [Solicitor engaged in the formation of the company] [person named as director or secretary of the company in the statement delivered to the Registrar under section 10 of the Companies Act 1985] and that all the requirements of the Companies Act 1985 in respect of the registration of the above company and of matters precedent and incidental to it have been complied with.

And I make this solemn Declaration conscientiously believing the same to be true and by virtue of the Statutory Declarations Act 1835.

Declarant's signature

[Empty box for signature]

Declared at [Empty box]

On [Day] [Month] [Year]

Ⓢ Please print name.

before me Ⓢ [Empty box]

Signed

[Empty box for signature]

Date

[Empty box for date]

† A Commissioner for Oaths or Notary Public or Justice of the Peace or Solicitor

You do not have to give any contact information in the box opposite but if you do, it will help Companies House to contact you if there is a query on the form. The contact information that you give will be visible to searchers of the public record.

[Empty box for contact information with labels: Tel, DX number, DX exchange]

Companies House receipt date barcode

This form has been provided free of charge by Companies House.

Form revised 10/03

When you have completed and signed the form please send it to the Registrar of Companies at:

Companies House, Crown Way, Cardiff, CF14 3UZ DX 33050 Cardiff for companies registered in England and Wales

or Companies House, 37 Castle Terrace, Edinburgh, EH1 2EB for companies registered in Scotland

DX 235 Edinburgh or LP - 4 Edinburgh 2