

**Regulator
of Community
Interest Companies**

Annual
Report
2013/2014



Regulator of Community Interest Companies

Annual Report 2013/2014

Presented to Parliament pursuant to section 27(8) and schedule 3, section 7 of the Companies (Audit, Investigations and Community Enterprise) Act 2004.

The Office of the Regulator of Community Interest Companies (CICs) is part of the Department for Business, Innovation and Skills.



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Any enquiries regarding this publication should be sent to us at:
Community Interest Companies, Companies House, Crown Way, Cardiff, CF14 3UZ.
or email: cicregulator@companieshouse.gov.uk

You can download this publication from: www.gov.uk/cic-regulator

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Mission

To ensure effective regulation and provision of information to support the growth of community interest companies in the UK.

Vision

That community interest companies are recognised and trusted by society for serving our communities with integrity and excellence.

Objectives

1. To build public confidence in CICs through effective impartial regulation and provision of information.
2. To develop strong links with key organisations to ensure an integrated approach to regulation: and to provide quarterly reports to stakeholders.
3. Pro-actively instigate and support activities that will develop the profile of community interest companies. Ensuring awareness of the CIC model.
4. To be able to demonstrate good governance and pro-actively manage risks.
5. To ensure those affected by the regulation of CICs are highly satisfied with our services.

Foreword



This year became significant when we consulted on the future of CICs and their suitability for investment. The answers were clear. This was the time to change.



Every year is significant but some years are more significant than others.

In 2015 we will celebrate ten years of Community Interest Companies (CICs) with over 10,000 companies on the register, after dissolutions have been accounted for. That will be significant.

This year became significant when we consulted on the future of CICs and their suitability for investment. The answers were clear. This was the time for change. By December 2013 proposals were put to the Secretary of State to make amendments to the CIC legislation that will significantly change the way some CICs do business. Now the amendments are being written and we expect to be able to have the changes debated in Parliament in the summer of 2014. This will change the way CICs limited by shares in particular are able to operate.

More changes affecting CICs will come from the Social Investment Tax Relief outlined in the HM Treasury Roadmap. Our consultation was carried out jointly with HM Treasury as they developed proposals which identified CICs as one of the 3 models for investment. Working together was significant in itself and a great piece of joined up government that has achieved real success. I am grateful to HM Treasury for their willingness and foresight in this.

We hope that these changes will encourage CIC to be the model of choice. They will have greater freedom for growth and development yet remain under the scrutiny of the Regulator.

Significantly this year saw many more annual reports including new NHS spin outs. We looked at every spin out report in detail as they came in. They cover a range of traditional activity but are also showing signs of new and innovative ways of working that has been enabled by social enterprise. Some have had to make some difficult decisions; many have recorded improvement in service delivery and much closer community working. ➤

By **Sara Burgess**

Regulator of Community Interest Companies

Where they have seemed to falter we have followed it up. It was more unknown territory in the world of CICs but it has helped us develop our scrutiny to the benefit of all CICs.

As the Charity Commission took a lot of pressure very publically throughout the year we saw some of the issues and constraints that can impact on the work of a regulator as its workload increases and its resources diminish. If those significant changes affecting CICs take hold then we can expect some similar dynamics and we need to be ready for it.

“As a learning organisation we take everything on board and I hope we will be able to provide new information in the coming year on our website that outlines the kind of work we are doing on complaints raised with us.”

We too will need to review how we use resources and how we continue to deliver an effective service in line with the requirements of the legislation whilst ensuring proportionality, accountability and transparency and maintaining the reputation of being approachable and visible. Since the inception of CICs the office has had to work with shifting sands to make sure it is fit and able to meet the increasing demand for regulatory oversight.

We too have taken some criticism. As a learning organisation we take everything on board and I hope we will be able to provide new information in the coming year on our website that outlines the kind of work we are doing on complaints raised with us. This is another significant and responsive change in the development of our work.

The pictures on the cover and throughout this report demonstrate the diversity and scope of the work of CICs. They are our significant customers and the best story about a CIC is one they tell themselves in pictures or in stories. If you want to see a microcosm (an expanding one) of social enterprise do read about these significant ventures and the work they do.

Then keep your eyes open for what happens next because CICs are here to stay. They are a trusted model for social enterprise and business and are fixed in our thinking, in our sector, in our economy and in emerging legislation as well as in the interest of others around the world. A significant start to the anticipated new decade of CICs.



Executive Summary



We anticipate registrations will continue to increase as the word spreads and policy changes to make this model even more attractive to social entrepreneurs and investors.



This year's report reflects once again on the continuing growth of the CIC model. There are well over 9,000 Community Interest Companies registered across the UK as we go to press, rolling relentlessly towards 10,000. We intend to mark this occasion when it occurs but we have another celebration hot on it's heels which will be the 10th anniversary of the CIC. 2015 will be a year of celebration of the CIC model and preparations are in progress.

We anticipate that registrations will continue to increase as the word spreads and policy changes to make this model even more attractive to social entrepreneurs and investors. Growth is tempered by dissolutions which of course are also increasing but nevertheless more and more social entrepreneurs are taking up this option for their social purpose. This will have an impact on the work of our small team. We constantly have this in mind as we are already managing increasing numbers of reports each month as more and more companies register. It is 21 months before a CIC is expected to submit its accounts and report to the Regulator and given the rate of growth this is an ever increasing workload that is under constant review.

The other area of regulatory work that continues to increase is complaints. As in previous years we have provided some more detailed information on how we deal with concerns and complaints and the nature of some of those issues. As you will see complaints are often related to a CIC not fulfilling its obligations and the most likely outcome is that it will close, usually with very few assets remaining. Complaints are a serious matter and always dealt with accordingly.

This is an important part of regulation. As the new Regulators Code emphasises, however, regulation is as much about identifying an issue and helping a company to find a way to resolve it as it is being heavy handed and using powers.

Indeed it is not our remit to be heavy handed. In addition the Regulator's Growth Duty now asks more of regulators in the role of encouraging and enabling companies to survive and grow; a concept not at all new to the CIC Regulator and which has always been part of our mantra since inception. The message is that punishment may not be the answer. Where it is, it will be used proportionately and appropriately.

In meeting the ethos of the Red Tape Challenge and enabling development changes to the model, our Regulations should be laid in June 2014 for implementation in October 2014 and are the result of a lot of discussion and debate over the last 2 years. In fact they build on the work we did back in 2009 on dividend and performance related caps within the asset lock. We hope next year's report will show some of the impact of this on the growth of CICs and on our work here in the Office of the Regulator (recently referred to by BIS as ORCIC!) Those of you who know the Regulator will guess the reaction to that.

The Regulator is supported in key areas of work like legislative changes by an advisory group called the Technical Panel. This is made up of a core of advisors but expands or contracts depending on the matter in hand and the expertise needed. In this report Mike Deacon has given a very insightful peek into his role on the panel and the work he has been involved in. ➤

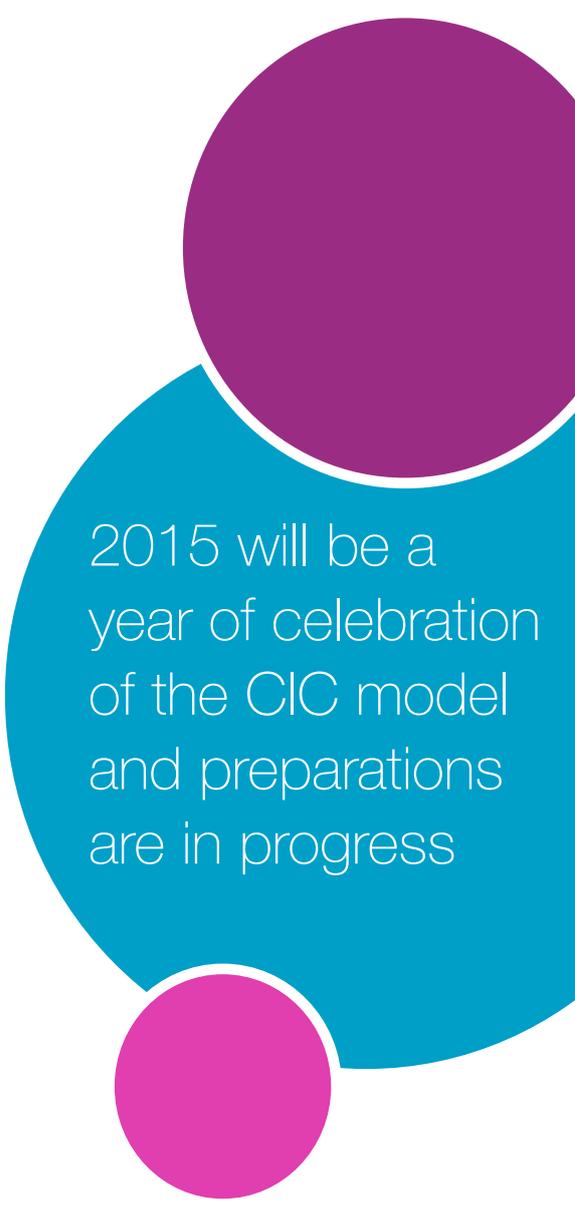
You can also read about how CICs are making their way in the economy and the impact they are having. Not least those health sector spin-outs some of which are now at the stage of submitting annual reports and beginning to show how being social enterprise frees them up to be more innovative in the way they provide services and indeed the kind of services they offer. We have learned to expect the unexpected with the CIC model and registering health spin-outs was not on the horizon when we started and has shown how flexible this model can be.

We plan to develop a Memorandum of Understanding (MoU) with MONITOR, the new regulator for the health sector and believe that the CIC model will fit comfortably with the work they are doing. We have several more new MoUs this year including the Northern Ireland Charity Commission and Social Enterprise Ireland. Social enterprise is in the spring of its evolution in both. There are CICs in Northern Ireland but Ireland has no similar model and we are pleased to be able to offer support alongside other organisations as they move forward.

The Office of the CIC Regulator is very customer focussed and we have striven to continue to provide an excellent telephone and email service and to develop the information on our website. The website was moved yet again during the year hopefully to its final home at GOV.UK.

This was a very time consuming piece of work and we strove to maintain the good reputation of the website as this went forward to be sure it remained accessible and relevant to the needs of our customers. An efficient and usable website helps us reduce phone calls and emails meaning that the team are more available to discuss more detailed points with those who need to speak to us. The new website is very different to look at but it contains all the same information and more. Let us know what you think.

The CIC Team remains the same this year. We have been together a long time now and are very comfortable working alongside each other. The work never fails to bring something new which keeps us all on our toes and interested – no time to get stale. Hope you like what we have done this year. We strive to make the report better each time, working on the new one almost as soon as the current one is published. So you can assume next year's anniversary edition is already on it's way when you read this.



2015 will be a year of celebration of the CIC model and preparations are in progress

CIC Regulators Office

Sara Burgess

Sara became the first female Regulator of Community Interest Companies on 14 September 2007, bringing with her a background in charity work, having started out as a community worker and then taking on management and senior management roles. Sara also has a wider understanding of, and a keen interest in, the social enterprise sector. As the CEO of Living (DLC), Sara was instrumental in the conversion of one of the first charities to a CIC.

Sara is a fellow of the Royal Society for the encouragement of Arts, Manufactures and Commerce (RSA), in which she takes an active interest and in her work, is a grants assessor for Children in Need in the South West.

The Team

The team have developed an outward facing office dedicated to exceeding expectations and are committed to delivering the highest levels of customer service.

This team brings a range of skills and expertise to understanding the needs of community interest companies. They are well informed and professional in their approach of helping and advising customers.

The team works in a confident manner, sharing expertise by working together to ensure effectiveness and efficiency. Positive feedback has proven they are approachable and accessible, as well as being well informed. ➤

We continue to work closely with Companies House



Working with Companies House

The team continues to work closely with our colleagues at Companies House to ensure that our joint examination procedures are as efficient and effective as possible. This year we have (yet again) made significant changes to make the registration of applications and filing of the community interest report with accounts simpler, as well as reducing the time taken for these documents to be approved and placed on public record.

We also continue to work closely with the Companies House contact centre to ensure their staff provide you with an answer to your query, or transfer you to our office or the appropriate section in Companies House.

Telephone calls:

3,410

(reduced by 49%)

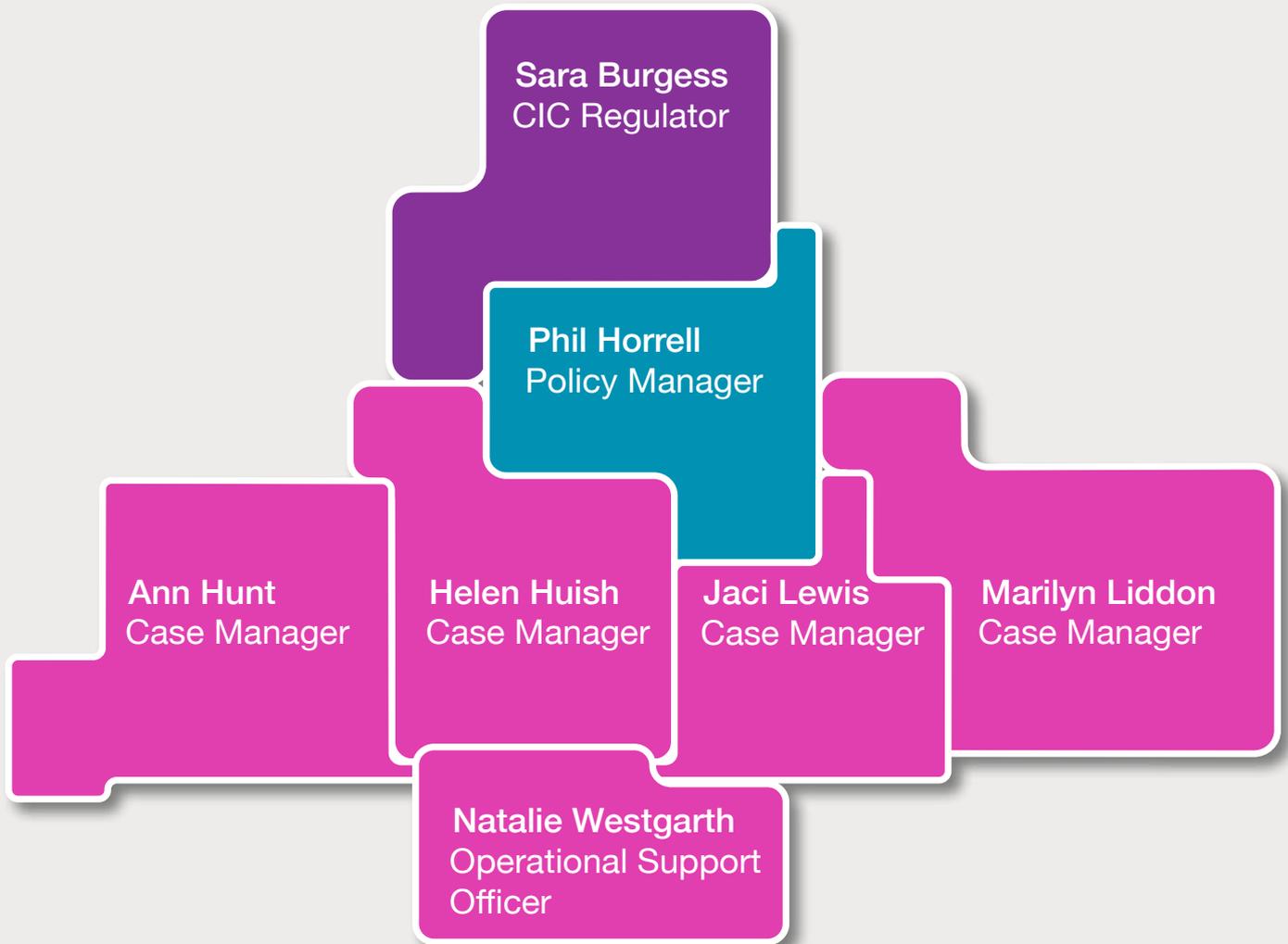
Emails:

2,253

(reduced by 22%)



CIC Team Organisational Chart





Rhyl City Strategy CIC



Quotes from customers



Thanks - that was impressively quick

This is enormously helpful. Thank you very much. We are grateful for the CIC Regulator and to you for taking the time to deal with our queries

That's fantastic - I will have a read through the information you have sent through and determine if the CIC is right for me and whether the kind of objectives I would like to fulfil are appropriate for a CIC"

We are very grateful not only for your swift response to the conversion application and your willingness to push things along but also for your help and guidance along the way

Thank You So Much :)
- I really appreciate your help!

Thank you so much for your prompt reply. It is a great help in resolving our confusion

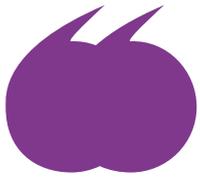
Thank you. I thought that was the case but I just wanted to be sure

Thank you for your swift and clear guidance

Thanks for your help and support throughout the conversion process. I think I have all the necessary documents and signatures in place to go ahead. I have just got to post it all and wait. Thanks again

Thank you so much for directing me and giving me links to further information

The Community Interest Report



Now in our eighth year of operation and receiving over 100 CIC Reports every week, we know that the CIC brand is flourishing



As CICs become further embedded as a mainstream force for social enterprise we can report that this has been a bumper year for CIC Reports and we have received 5,259 all of which have been reviewed. We have found that only a small minority of around 5% fail to take advantage of the opportunity to tell us about the great things they have achieved for their communities.

The directors of a CIC have an important additional obligation to prepare an annual CIC Report to be filed with their accounts. The purpose of the CIC 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 which benefit the community.

The CIC Report is placed on the public record for all to see and as such provides a unique opportunity for the CIC to 'sell itself' and tell the world about its achievements. We want CICs to showcase the great things they have achieved throughout the year – spread the message, tell your story, let us know what is happening out there. This is a fantastic opportunity to make a very public statement about how you, as entrepreneurs and hard working, dedicated individuals are making a real difference in your communities.

It is not all about the good times of course. We know that the current economic climate is very difficult and many CICs are finding it tough going. Money is not readily available, funding streams are tight and that is why it is so important for CICs to take advantage of the CIC Report and file a report that makes them stand out from the crowd.

With over 9,000 CICs operating in every sector of society along with so many other forms of social enterprise, ask yourself, why will a funding body or grant maker pick my CIC, what sets us apart from other companies, how can we secure that all important funding? Well, help is there for you in the form of the CIC Report!

The CIC Report can, if used fully, make such a difference, providing a body of evidence to back up your hard work and efforts. It is a big part of what sets CICs apart from ordinary companies and other social enterprises - CICs are different! The CIC Report provides assurances to funders and the public alike that they are doing what they have set out to do and will carry on conducting activities that benefit their community.

So what other assurances does the CIC Report provide? Well, one important feature is the reporting of director's remuneration. This is a key area and one that is central to the ethos of CICs. Director's can be paid for their services and we expect any such payments to be reasonable, transparent and affordable. It is however important not to confuse director's remuneration (which is paid for duties performed in the role of director of the CIC) with salaries that may be paid for work that director's carry out for the company e.g. a director is a chef in his CIC's café and receives a weekly wage for his work in the kitchen. Such payments should not be included in the CIC Report under the title "director's remuneration" but may be recorded as salaries or wages in the accounts. If the director spends time making decisions on the policy and way forward for the Café, this falls under director's remuneration. ➤

This is an area that sometimes causes confusion and it is important to differentiate between the two as they are distinct and separate. The CIC structure allows for salaries and wages to be paid the same as in any ordinary company and also allows directors to be remunerated as well - the key is in striking the right balance between generating personal financial gain and delivering the stated benefit to the community. As the Regulator says:

“I want to be able to attract high quality wealth creators as directors, paying them reasonable salaries, giving them immense job satisfaction, and the opportunity to put their talents to making profits for the public good.”

Another important feature of the CIC Report is how the CIC consulted with its stakeholders about its activities during the year. We often get asked “who are our stakeholders?” Well, we view stakeholders as those people or bodies that the CIC is engaged with in its day-to-day work. Principally it is the community that the CIC was set up to serve and we would certainly expect an exchange of dialogue between the two which may take the form of meetings, leaflets, newsletters, social media and the like. Some CICs seek funding or work closely with a local authority for example and these organisations can be viewed as stakeholders, as can the customers of some CICs. The key here is communication and how the CIC has spread its message.

The asset lock is fundamental to the way CICs operate and the CIC Report asks every CIC to tell us about any transfers of the CICs assets that were made to other asset-locked bodies or otherwise, at less than market value, for the benefit of the community. Generally we find that the asset lock is well understood and adhered to and we are delighted that so many CICs have given to good causes be it small amounts of a few hundred pounds or many thousands of pounds.

A key strength of the CIC Report is that it is placed on public record and can be viewed and downloaded by anyone who is interested in the CICs activities and what it has been doing throughout the year. If, after reading the report they feel that the information is not accurate and they have concerns, they will contact us to draw these concerns to our attention and we will take action.

Looking towards the future the Regulator recognises that we may need to review the design of the CIC Report to make sure that it is fit for purpose. There are currently two types of CIC Report, the detailed report and the simplified report and we find that the majority of CICs complete the simplified report because the detailed one is considered by many to be too complicated.

"It is a big part of what sets CICs apart from ordinary companies and other social enterprises - CICs are different!"



Cattleya CIC

Cattleya CIC, formed in 2011, is an award winning, student-run social enterprise that serves a range of outstanding non-alcoholic exotic cocktails and smoothies at events. Cattleya is the first ever Colombian Fruit Enterprise to be set up within a school and one of the few registered Community Interest Companies within any school in the UK. Cattleya offers a range of alcohol-free exotic cocktails and smoothies with a real taste of Colombia. The fruit purees are ethically sourced from Colombia and are supplied by Fruto del Espiritu to support the exotic fruit sector. This has huge potential to replace coca cultivation (the plant from which cocaine is produced) as an alternative, sustainable, rural economy. The Cattleya enterprise allows students to make real and tangible benefits to the next generation in Colombia. An ethical premium of 5% of Cattleya's fruit purchases finances education for teenagers whose parents work in the fruit factory. As a not for profit organisation, Cattleya has made several donations which has provided twelve months of nutritious lunches for a child at high risk at El Comedor. The website is www.cattleyacic.co.uk

Feather Perfect Falconry CIC



Now in our eighth year of operation and receiving over 100 CIC Reports every week, we know that the CIC brand is flourishing. We have seen a sea change over the last few years with, for example, Primary Care Trust's changing the social landscape. With so many now operating as CICs they are able to provide a diverse range of services that truly work for people in their communities, tailoring services to fit those communities rather than a 'one size fits all.' It is not just the health spin outs that are making a difference in our communities and for instance the Health Lottery continues to grow successfully and has helped raise £39 million since its launch for charities and good causes throughout the UK.

Feather Perfect Falconry CIC

Feather Perfect Falconry CIC formed in 2011 provides a range of specialist bird of prey experiences, events and training packages that aim to connect people with nature and provide valuable lessons for life. They have a wonderful selection of owls, falcons and hawks, all trained by experienced falconers who are passionate about what they do and can offer a fascinating insight into these creatures on the very popular Hawk Walks or Owl Experiences out in the Shropshire Countryside. Importantly their work also focuses on delivering a range of health and wellbeing benefits to people whilst connecting with these beautiful birds. They often visit ➤

There are so many stories to tell and it is not just about the big players. CICs come in all shapes and sizes and we have taken this opportunity to tell you about just a few that we have come across this year that we hope provide a flavour of their commitment, diversity, passion and uniqueness.

hospitals, hospices and village halls to speak to clubs and groups interested in getting close up to the birds, providing memorable experiences and a once in a lifetime chance to see and handle some of nature's most stunning creatures. A further benefit to these activities is that they are able to simultaneously promote the safe keeping of captive birds of prey and educate people about natural habitats and requirements needed by wild birds of prey. The website is www.featherperfect.co.uk

Freedom In The Air CIC

Freedom in the Air (FITA) CIC creates the opportunity for people with disabilities to experience the thrill of flying. Established in 2007 and converting to a CIC in 2010, Freedom in the Air makes flying more accessible for young people with disabilities who would otherwise not have had the opportunity. It's 'Freedom Wings' flying days are a wonderful opportunity to introduce those with disabilities to the freedom experienced in the air, helping to rebuild confidence and restore self-esteem. FITA also specialise in the training of people with a range of disabilities to obtain their Private Pilots Licence,

National Private Pilots Licence and even Flight Instructor rating. Working in collaboration with Cranfield University School of Aerospace Engineering they are developing a unique hand control device for pilots with lower limb disabilities which will make flying even more inclusive for people with disabilities. The website is www.freedomintheair.org

Fungi Futures CIC

Fungi Futures CIC formed in 2011 is an award winning social enterprise pioneering the growing of Oyster mushrooms from waste coffee grounds. Fungi Futures started out a few years ago when founder, Adam Sayner became fascinated by the world of Fungi. Following extensive research he began collecting waste coffee from local cafes and adding it to the growing mix. He had found a solution to make use of the tonnes of coffee waste being thrown into rubbish bags and sent to landfill every day and a way to produce delicious, healthy gourmet mushrooms. Wishing to involve, educate and inspire others too Fungi Futures provide information, products and training for anyone

in the UK interested in mushroom cultivation. Through links formed with educational bodies they have begun to explore and trial an education mushroom growing kit for schools. The website is www.fungi-futures.co.uk



Freedom In The Air CIC



Dissolutions

In the last year 976 community interest companies have closed down representing 10% of the number of CICs on the public register and is a marginal increase on last year.

Whilst close to 1,000 CICs closing down is concerning, we need to look objectively at these figures and understand the story behind the headlines. For instance, we know that:

- small business failure rates vary depending on where the statistics are coming from but it is generally recognised that 50 to 70 percent fail within the first 18 months;
- the Registrar of Companies will not normally pursue late filing penalties once a company has applied to be struck off the Register;
- the Registrar of Companies will strike a company off the register if they have not received documents that should have been filed; or if mail is returned undelivered or if there are no directors;
- the filing of the first accounts is a critical time for all companies and there is a direct correlation between the statutory 21 month deadline and the closure of a company;
- in the case of CICs, over 48% dissolved within the first 2 years and of these 70% were struck off the register by Companies House for failing to file their statutory documents;

- access to finance is cited by 36% of all CICs as the key reason for failure;
- other reasons include failure to commence trading, poor governance, revenue streams, internal disputes and cash flow problems;
- less than 4% of all CICs enter into liquidation proceedings;
- less than 2% of all CICs winding-up had objections raised by creditors against the closure.

Companies House has increased the late filing penalties for accounts significantly in recent years with the penalties doubling if the accounts are late for two successive years. So if a CIC has poor governance and fails to file its accounts on time, it may be met with a bill of up to £3,000 which can be instantly removed if it opts to dissolve. This is a key factor in a company's decision to be struck off (voluntary or compulsory) within the first 2 to 3 years. As we are now registering over 2,000 companies each year the actual numbers of dissolutions will continue to increase but in overall percentage terms it will decrease.

Interestingly, a high percentage of the CICs that dissolve are dormant and have never traded. This is not to say that they have been idle, far from it, many of these CICs have been active undertaking market research, trying to secure funding, finding premises etc. We know this because many dormant CICs file an annual community interest report which details their efforts to get their business going. Unlike ordinary companies that can remain dormant indefinitely,

CICs need to deliver benefit to the community or they will fail to meet the community interest test. It is therefore expected that most CICs will only remain dormant for 3 to 4 years. If they are not trading at this time the Regulator would expect them to consider their position and this explains the relatively high dissolution rate amongst dormant companies.

We have also identified a link between CICs which have been the subject of a complaint and their subsequent closure. Many of our complaints concern bad customer experience, failure to pay bills, poor governance and internal disputes. This is a clear indicator that all is not well with the company and whilst we take action, as appropriate, to resolve the situation it is not surprising that the CIC opts to close down. This is a pattern mirrored with ordinary companies and is a feature of company law that we have no influence over. Interested parties can object to the Registrar of Companies against the closure of a company and/or apply for the restoration of the company to the register should they feel this course of action is appropriate.

The Regulator continues to look at ways in which we can mitigate the number of closures. We know that being a CIC alone does not guarantee funding, nor should it. We therefore inform prospective (and existing) CICs that while the model may help, they need to do their research and approach grant makers and funding organisations that support their activities. Some may add additional restrictions such as unrelated signatories and ring-fencing of funds and CICs need to be responsive to this. We also know that CICs that access funding are able to demonstrate that they: ➤

- have a sound business plan;
- understand their market;
- are able to articulate their social impact;
- know their unique selling point;
- demonstrate strong governance;
- have filed annual accounts.

The Regulator has taken action this year to try to address the problems of accessing finance. She ran a consultation in June 2013 to hear the views of CICs and interested parties and published her findings in the December. The message received from CICs and investors was that urgent changes needed to be made to the dividend and interest caps. Whilst retaining the primacy of community purpose, we have taken this forward and the changes, which will offer greater returns to investors, will take effect from October 2104.

It will take a while to bed in but we are confident that these changes will make a difference. It will not only appeal to existing CICs and investors but should encourage more entrepreneurs to make CICs the model of choice. The introduction of tax relief for investors in social enterprises such as CICs from April 2014 is also an exciting development.

So we do draw positives from the last year. Yes, we are in challenging times but we know that if a CIC can get through those first two years its chances of success is significantly improved. After 9 years of operations we can now map the longevity of CICs and it paints a bright picture. For instance, 48% of all CICs incorporated in 2005/6 are still on the register and this statistic is repeated year on year. This is better than the national average and is a positive indicator for the future of CICs.



We anticipate registrations will continue to increase as the word spreads and policy changes too



Year End	Approved	Still on Register	%
31 March 2006	208	96	46
31 March 2007	637	278	44
31 March 2008	814	400	49
31 March 2009	1120	528	47
31 March 2010	1296	730	56
31 March 2011	1824	1147	63
31 March 2012	2087	1583	76
31 March 2013	2055	1961	95
31 March 2014	2494	2454	99
Total	12535	9177	73

Complaints

The Regulator's belief that to be effective in her role she has to be seen, and more importantly heard, is especially true when dealing with the area of complaints. People need to be reassured.

As the number of community interest companies increases, it follows that the number of complaints will rise too; this year saw complaints double and in the final quarter the office received a total of 23 complaints. Although each complaint is very different, our approach remains the same. We are firmly committed to a process of continuous improvement. The rigorous processes that we have put in place are regularly reviewed to ensure that they are fit for purpose. This provides a level of assurance to the public, who can be confident that when they raise a concern we will take it seriously. It is worth noting that the 78 complaints represent less than 1% of all CICs on the register.

Because some complaints may be vexatious or found to be groundless, we adopt a policy of neither denying nor confirming whether an investigation is taking place. We know that this may be frustrating for the complainant but the public perception of a CIC may be compromised if it was known that the Regulator was conducting an investigation.

We continue to feel that many of our complaints could be resolved without involving the Regulator. CICs are considered ambassadors for the movement and we expect them to make a positive effort to resolve issues at the earliest opportunity. We are however keen to ensure that CICs act appropriately and if we consider the matter serious enough, we will take action. The top three reasons for complaint are concerns over financial management, corporate governance and activities undertaken.

There are five key areas that the Regulator considers when deciding whether to use her supervisory powers:

- there is evidence of misconduct or mismanagement;
- there is a need to protect the assets;
- the CIC is not satisfying the community interest test;
- the CIC is not pursuing any activities in pursuit of its community interest objects;

- the CIC is engaging in political activities and/or political campaigning.

It is however not within our power to take action on each and every complaint and as a guide we list the types of complaints that the Regulator is not likely to pursue:

- issues raised which do not give rise to serious concern that the use of the Regulator's supervisory powers would be justified;
- complaints mainly about the standard of service that a CIC has provided. Important though the complaints are we are unable to adjudicate on them and they may be better raised with the appropriate bodies, such as the Local Trading Standards Office;
- complaints about activities which are perfectly legitimate for the CIC to be pursuing, for example, policies pursued, or actions taken, by the directors within the law and the provisions of the CICs constitution. The Regulator does not have the discretion to overrule a particular decision by the directors, validly taken within their powers, on the grounds that others take a different view;
- complaints that concern contractual obligations or property rights, which are properly matters between the CIC and a third party;
- complaints about matters which fall outside the remit of the Regulator, or, where other agencies or regulators are better placed to deal with the concern such as the Care Quality Commission;
- We have Memorandums of Understanding with other regulators to agree who should take the lead in particular circumstances;
- complaints about the conduct of a CIC which goes wider than regulation, and involves, for example, circumstances suggesting fraud, misconduct or dishonesty may be better referred to Companies Investigation Unit at the Insolvency Service. We have a close working relationship with the Insolvency Service and the Regulator has sought advice on a number of occasions; ➤



- where the CIC has been affected by a crime the matter should be reported to the police and in relation to taxation issues to HM Revenue and Customs;
- we cannot assist in legal proceedings taken against a CIC;
- the Regulator has no role as a referee to resolve differences between factions within a CIC.

As a light touch regulator we use our powers of supervision sparingly, but they are significant and if we need to take action against a CIC we will use them. Our first consideration is always proportionality. In other words what level of investigation or enforcement would be appropriate or in the public interest.

Most complaints are resolved very quickly but this year has seen the Regulator showing her presence more and using the powers vested in her to a greater extent. While the legislation provides the Regulator with powers of investigation similar to the powers used by the Companies Investigation Unit (CIU), it is expected that these powers will only be used sparingly. We also recognise that the CIU have expertise in this area and during the year we referred a number of complaints to their team which we felt were significant enough to warrant their attention.

We have also continued to build working relationships with other regulatory bodies and contact with local government offices, trading standards and the charity commission has become standard procedure.

We have taken the opportunity to visit a number of CICs this year to give the directors an opportunity to address the concerns raised.

These visits are important because it enables us to consider the issues in greater detail and for the CIC to realise the importance of behaving in an appropriate way. It has to be said that most complaints are resolved quickly and is often the result of a genuine misunderstanding. If a CIC has behaved inappropriately the Regulator has worked with the directors to resolve the matter to the complainant's satisfaction.

We have also continued to see a direct correlation between a CIC being the subject of a complaint and later dissolving. This is not always the case but quite often concerns about a CIC's governance or financial position raises wider questions about its ability to continue in the longer term.

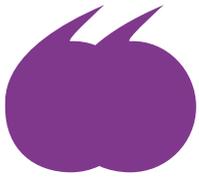
As mentioned in the Foreword to this report, we intend to provide greater information throughout the year to outline the kind of work that we are doing on complaints. Whilst it will be important to keep the CICs anonymous we believe that this increased openness will be welcomed both by CICs and the general public.

The table below provides a breakdown of the nature of the complaints received:

Nature of Complaint	Numbers
Activities	11
Asset lock	7
Directors Conduct	8
Directors Dispute	6
Financial Mismanagement	16
Governance	12
Internal Matter	3
Not Regulators Remit	4
Other	3
Political Activity	3
Unpaid Invoices	4
Unpaid Salary/Fee	1



Finance



The Regulator is committed to securing efficiencies and helping BIS meet its requirements under the 2013 Spending Review



The Regulator's Office is supported by staff from the Department for Business, Innovation and Skills (BIS) under BIS terms and conditions. BIS systems and controls are in place across the board.

The fee to incorporate a community interest company or to file a community interest report was set at a rate comparable to company incorporations and the filing of foreign accounts. The fees are payable to the Registrar of Companies on delivery of the documents relating to the listed events. Fifteen pounds of the fee is transferred to the consolidated fund to cover an element of the Regulator's costs.

The Regulator is committed to securing efficiencies and helping BIS meet its requirements under the 2013 Spending Review and continued to take measures to reduce our spend throughout the year.

However compared to last year we spent an additional £5,000 due to the additional costs incurred running the Dividend and Performance Interest Cap Consultation. However we have increased our recovery of costs against expenditure of 39%.

The measures included:

- greater reliance on digital data such as the CIC website;
- staffing costs reduced;
- holding more meetings in Cardiff delivering presentations and workshops at our office;
- arranging meetings to coincide with off peak travel;
- These savings have been achieved in the face of increased applications and workload and have not impacted on the level of service provided by the Regulator and her team. ➤

	2013/14	2012/13	2011/12	2010/11	2009/10
(a) Expenditure					
31 March	285,000	280,000	290,000	340,000	450,000
(b) Income					
Formations and Conversions	2,494	2,070	2,087	1,824	1,298
CIC Reports	5,259	4,163	3,040	2,259	1,571
31 March	112,000	95,000	77,000	61,000	43,000
(c) Percentage of Income against spend					
31 March	39	34	26	18	9



We are committed to securing efficiencies

63%
the reduction in spend since 2009

39%
the percentage of spend recovered

£170k

the net cost to the chequer for running our office; compared to other regulatory bodies our spend is relatively small

Memorandum of Understanding

The purpose of a memorandum of understanding (MoU) is to set out the agreement reached between two bodies and the framework for co-operation and collaboration. It encourages better understanding, closer working and consistency of practice and provides a transparent statement of commitment on both sides. It is not a legally binding document but it is intended that all parties will approach the MoU in the spirit implicit in the co-operation arrangements.

As the governing body for community interest companies we regulate the whole of the UK and our memorandums of understanding reflect this. For instance, we currently have a MoU with the Charity Commission for England and Wales and the Office of the Scottish Regulator and we are currently in negotiation with the Charity Commission for Northern Ireland. Whilst the precise wording of the MoU respects the operational differences of each organisation, our relationship with each body is one of partnership and co-operation.

We have a growing number of agreements with sector regulators, umbrella organisations and membership bodies all of whom will have direct contact with CICs in some shape or form. In the last year we have drawn up agreements with the Social Enterprise Mark CIC and reviewed our MoU with Social Enterprise Coalition CIC. All MoUs are reviewed and updated after 3 years to ensure that they continue to meet their stated objective.

The agreements are intended to ensure that both parties work together in the interest of CICs. Where appropriate we may share information and keep the other party informed of matters of interest. We will also have a process in place which will decide who the lead regulator is in certain circumstances. This is a key feature of the MoU because CICs often operate in sectors which have their own regulators such as social housing and health care and there needs to be open dialogue between our respective organisations to encourage joint working and consistency of practice.

As a small organisation of just 6 staff supporting the Regulator, we find that having a MoU with a key stakeholder is beneficial to ourselves and to CICs.

It is particularly useful to have a named point of contact who we can get in touch with, who understands our role and who is able to take forward our enquiry and get back to us.

As the CIC brand continues to grow we expect to draw up more memorandums of understanding which will ensure that the interests of CICs are represented at all times. Copies of all our agreements are held on our website under Publications and are available to download.

Sara Burgess and Lucy Findlay signing the MoU between our office and the Social Enterprise Mark CIC on 5 June 2013 (below)



Sara Burgess and Peter Holbrook signing the MoU between our office and the Social Enterprise Mark CIC on 27 Feb 2014

Consultation

Not another consultation?!

“I’ll look at it later...” It’s the way many of us react... when we are encouraged to participate in a consultation process. We know it’s important and we really want to share our views but there are other priorities that must come first.

I was about to consult as the result of a review with 7,000 CICs by the CIC Association, regarding ongoing issues around barriers to investment, when I heard an announcement by the Chancellor on the radio as I was driving in my car that made me think again.

HM Treasury were going to consult on tax relief on social investment which I could see was clearly going to have an impact on CICs and which was relevant to the work I was doing.

They were going to steal my thunder!! (well they are bigger than me).

How could I run my consultation at the same time without causing consultation overload with effectively the same people? I would have to delay but I was running out of time both in a Parliamentary sense and in terms of my appointment which ends in 2015. So I contacted HM Treasury and we had a fantastic meeting where both sides agreed that 2 consultations would be a waste of time, resources and energy when the points we wanted to raise overlapped. The result was a joint consultation between HM Treasury and BIS with the CIC specific questions incorporated into the body of a single document. It seemed an obvious thing to do but I am told it is quite unusual. It worked really well and the result was that there was one consultation which has led to Social Investment Tax Relief with CICs as one of the specified models and changes to the CIC legislation which should offer even more incentive for investment into the CIC models, in particular the company limited by shares.

A debate recorded in Hansard in 2005 explains the reason for the double cap on dividends indicating a CIC should not pay out too much of its profits in dividends so an aggregate cap of 35% would apply on top of a cap on the amount of dividend per share that could be paid. This arrangement was quoted as striking “a fair balance”

Responses to the Regulator’s consultation in 2009 and the joint consultation with HM Treasury in 2013 demonstrated that it was too restrictive and unnecessary. The majority of respondents agreed that CICs should not pay out too much of their profits in dividends and the result is that the aggregate cap will remain at 35%. Some would have liked to see it increase to 49% but as I was frequently told very few ordinary companies would ever pay out that much of their profit in dividends and as the CIC is a unique model it was clear that 35% is more than sufficient.

The dividend cap is a different issue. In 2009 the concern was the complexity in calculating it that came to the fore and so the process was changed to simplify it and how to calculate performance related interest.

In 2013 there were still less than one quarter of registered CICs that were CLS and hardly any paid dividends. For me a share company has a unique opportunity as a CIC to generate income in a different way and can move away from grant reliance so I was more than interested in why we still seemed to have a problem. The response was that having two caps was still too complicated and unnecessary to maintain the integrity of this still regulated model of company. The 20% cap was set deliberately high and in fact is irrelevant. The other issue was that CIC shares were effectively illiquid and therefore not very interesting to investors who would have to be incredibly philanthropic to invest. Bearing in mind that these are registered companies where business is a key ingredient.

The result is that the Secretary of State has agreed that the 20% dividend cap should be removed. This is linked to the paid up value of the share in that the maximum dividend that can be paid is 20% of the original paid up value. By removing the cap we remove the peg and so the shares will now have a market value. The protection on distribution of profit remains but now the more CICs make the more they can provide a return on investment. If anyone ever makes millions out of a CIC it will be an incredibly profitable company which can well afford to repay those who have risked providing financial support. The social purpose of the company stays intact and indeed the more profitable it is the more it can put into its community interest.

Performance related interest did not seem to be a particular concern from the responses to the consultation but as the new cap in 2010 was rather arbitrarily low it has now been increased to 20% in the hope that this will also encourage more investment into CICs.

The CIC remains intact. It is still registered, still subject to reporting requirements and the Office of the Regulator still has oversight.

The new legislation is planned to come into force in October 2014 and will apply to all CIC limited by shares (CLS) companies. The cost impact on CICs will be minimal, the benefit will be great if they take the opportunity to use it. I hope that more CICs will take advantage of the CLS option and with SITR I hope that in time more entrepreneurs will use CIC as the model of choice for the benefits of investment with the competitive advantage of regulation.

It has been a great journey for me and my team, still to be completed during 2014, and a welcome one in tandem with HM Treasury. I am very grateful to all those involved for being open minded and flexible enough to see the benefits of a joint consultation and I thank them for their support.

The CIC Technical Panel

As a Technical Panel member to the CIC Regulator since 2009 my journey has been an interesting one watching the CIC proposition evolve and mature after its inception within the Office of the Third Sector back in 2005.



My own personal background was in financial services for 30 years, and I had in 2008 decided to set up my own business and finance consultancy and immediately secured a client that was set on becoming a CIC (Company Limited by Shares (CLS) based) as a public health consultancy, and which turned out to become a large and vibrant business from Day 1. As a result of this, and through my connections with the lawyers I had engaged to help establish the CIC (and with whom I still work closely today), I started to engage in more research and to network within the CIC Social Enterprise space.

In May 2009 I was asked by the CIC Regulator to complete a consultation survey response on the Dividends and Interest Rate caps enshrined in legislation at that time on behalf of a CIC I had help establish for its shareholders, and was providing business and project management consultancy for. From there, Sara Burgess invited me to attend a discussion day in August 2009 to discuss the findings from respondents and to help input into the next steps along the regulatory road.

After the August 2009 workshop discussion day, Sara asked me if I would like to join her Technical Panel to add some “commercial insight” into the way the legislation could improve and become more relevant to the growing CIC community. I happily agreed, as for me, coming from a private sector background, I could offer some objective views on ways to help improve both understanding and some apprehension about the ways in which CIC organisations could grow within the existing legislative framework.

I have been on board ever since. As a Panel member, I have welcomed the chance to express my opinions, not I would say, necessarily to everyone’s liking or approval, but perhaps as a “Jiminy Cricket” of “saying the unsayable” or “suggesting the unthinkable” during meetings as to ways in which the role of the CIC Regulator can become more relevant and useful to its growing CIC community over time.

Since 2009 the CIC family has grown significantly, and the numbers of organisations in the past 2 years especially that are forming to become “mutual social businesses” to help Local Authorities in particular, as well as some Central Government bodies, divest statutory and non-statutory services into “mutualised social enterprises” has been quite dramatic. As a business strategy and transformation consultant in my own right, I have actively helped several “mutual social businesses” either start or review their “new organisational and business pathways”.

I thoroughly enjoy this work, as I feel that I have a valuable contribution to make to the evolution of the CIC community and the underlying legislation that protects it. There are frustrations for me. The most notable is the pace of change. Government departments and legislation changes are like oil tankers making U turns at speed.....their speed.....usually very slow and steady.....to fit the legislative timetables and the running of parliament rather than the needs of the CIC community itself. It is frustrating at times, but you work with the tools in your toolbox as best as you can. ➤

The recent work undertaken by the CIC Regulator assisted by the Technical Panel in late 2013 on revising the dividend and interest caps, working together with HM Treasury has been very interesting. It is directly linked to the introduction by October 2014 of a new Social Investment Tax Relief, and is a major step forward for the CIC community overall. It has been good to see a more integrated approach between the CIC Regulator working within BIS, and HM Treasury.

For me personally, I see this event as a significant first step towards creating a real and substantial “social investment market” in the UK. I am an advocate of creating a lightly regulated “social enterprise stock market” for investors to commit valuable capital cash into this space and to help CIC’s to grow.

A popular misconception is that CIC’s being part of the Social Enterprise family is “not for profit”. In my own view, that is wrong. They are. They pay Corporation Tax and VAT. Charities get more favourable tax reliefs (in exchange for rigorous monitoring rules) and wider access to grant and other “softer” funding. CIC’s find it immensely difficult to attract capital. Part of this also extends to a wider “knowledge gap” in the market place. Lenders, investors and even other social enterprise organisations don’t know what a Community Interest Company is or does.

More work in “selling the sizzle” is to be done, and the CIC Regulator is planning to do this.

What for me holds the most frustration, in my own personal view, is the slow pace of creating a “social enterprise stock market”, based on buying and selling shares in CIC’s. Shares are a liability to every CIC, not an asset. The asset lock in the legislation relates to wealth created by and for the CIC organisation which is then wrapped by the dividend and interest caps that are being increased to make social investment more appealing to social entrepreneurs and investors alike. This ambition that I have may take many years to achieve, but I believe it is achievable without diminishing in any way the ethos and purpose of social enterprise organisations.

Government is in the middle of the biggest change and transformation programme since WW2. It has to become smaller and more efficient and adept at adopting service delivery models that maintain and increase current services at the same or lower costs. This is where CIC’s lead the way. The present legislation is being revised as at the outset of creating CIC organisations, the legislation was built to cater for “micro SME and small community organisations” that were run by people in the community, for that community.

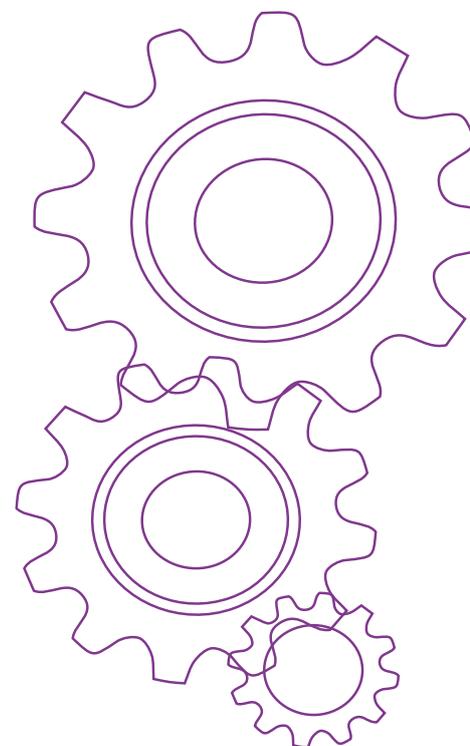
Now, 10 years on, CIC’s are being asked to become in some cases, through the mutualisation process, substantial multi million pound organisations.

The legislation needs to be redesigned to “fit better”. This is where my involvement in the Technical Panel can make a real difference as I can bring my commercial and direct consultancy experiences in this space to the Panel to explain how things are “on the ground”. I hope to continue this input and support wherever I can provide this for the foreseeable future, and that together with my work involving other Government departments engaged in service transformation my experiences can help shape future thinking and legislation.

The future of the Technical Panel is going to become stronger and more important over time, as the pace and demands of change within Central and Local Government increase rapidly. The public sector overall is facing major financial challenges ... the “more services for less costs” conundrum.



This is being addressed, but it is a slow process. CIC’s will remain a small, but slowly increasingly important component of public service change in the UK. It is clear that savings and economies need to be made. It is also important to reduce red tape and to empower people in their communities to “take ownership” of what they do for their community. It increases self-worth, group worth and binds communities together more effectively. It is also a catalyst for cultural change both personally and in business terms. I hope to make my small continued contribution to that process in the future working within the Technical Panel for the CIC Regulator.



Mike Deacon
Technical Panel member to the CIC Regulator

CICs at Work





Website



We now receive on average 7,410 unique visitors every month (59% are new visitors) Overall, there have been 118,475 visits to the CIC website and 488,612 page views within the year.



This year saw the launch of the new CIC website on GOV.UK. To be exact it happened at 9.30 am on Thursday 28 November 2013.

GOV.UK is an essential part of the government's digital by default agenda for transforming public services – making them simpler, clearer and faster for tax payers and more effective and efficient for government. This approach was supported by the Civil Service Reform Plan, published in June 2012.

Now is the time for everyone to get familiar with GOV.UK as it replaces the hundreds of individual websites of government and public bodies by 2014. All 24 ministerial departments have already moved to GOV.UK in 2013 and we were one of the first organisations to get on board.

The move to GOV.UK has been one of the biggest challenges for us during 2013. We had taken great pride in our existing website which was user friendly and customer focussed and we did not want to lose this when moving to GOV.UK. A lot of hard work was necessary by us and the Government Digital Service (GDS) to ensure our content still met the Plain English standard. However we are continually looking at ways to improve the experience for our customers and to allow us to do this, we always welcome feedback.

The interest in CICs is still continuing at pace and this is reflected in the number of hits on our website. We now receive on average 7,410 unique visitors every month (59% are new visitors). Overall, there have been 118,475 visits to the CIC website and 488,612 page views within the year.

The most viewed pages are our guidance, forms, model constitutions, case studies and introduction. Within our guidance the most viewed chapters were chapter 4-creating a CIC, Chapter 1-Introduction, which includes legislation and overview of CICs, and chapter 2-preliminary considerations. This informs us that people are more than just curious and are likely to be considering registering a CIC or downloading the form CIC34 – community interest report to file with their accounts and fee.

This year also saw the CIC team on twitter (@TeamCIC).

Twitter is an online social networking and microblogging service that enables users to send and receive “tweets”, which are text messages limited to 140 characters. We as a team are always looking at ways of promoting the CIC brand and to date have over 100+ followers. Our top tweet is the daily number of CICs on the public record. We know this is a popular one as it gets retweeted instantly!

If you follow us, you can generally expect no more than 5 tweets a day, usually less, covering the following:

- alerts about new content on our website (news, publications etc);
- the events the CIC Regulator is speaking at;
- daily update of the number of CICs on public record;
- monthly update of how many new CICs we registered the previous month.

Twitter does not and will not replace our other, more extensive contact processes such as contacting the office by email or telephone.

This year:

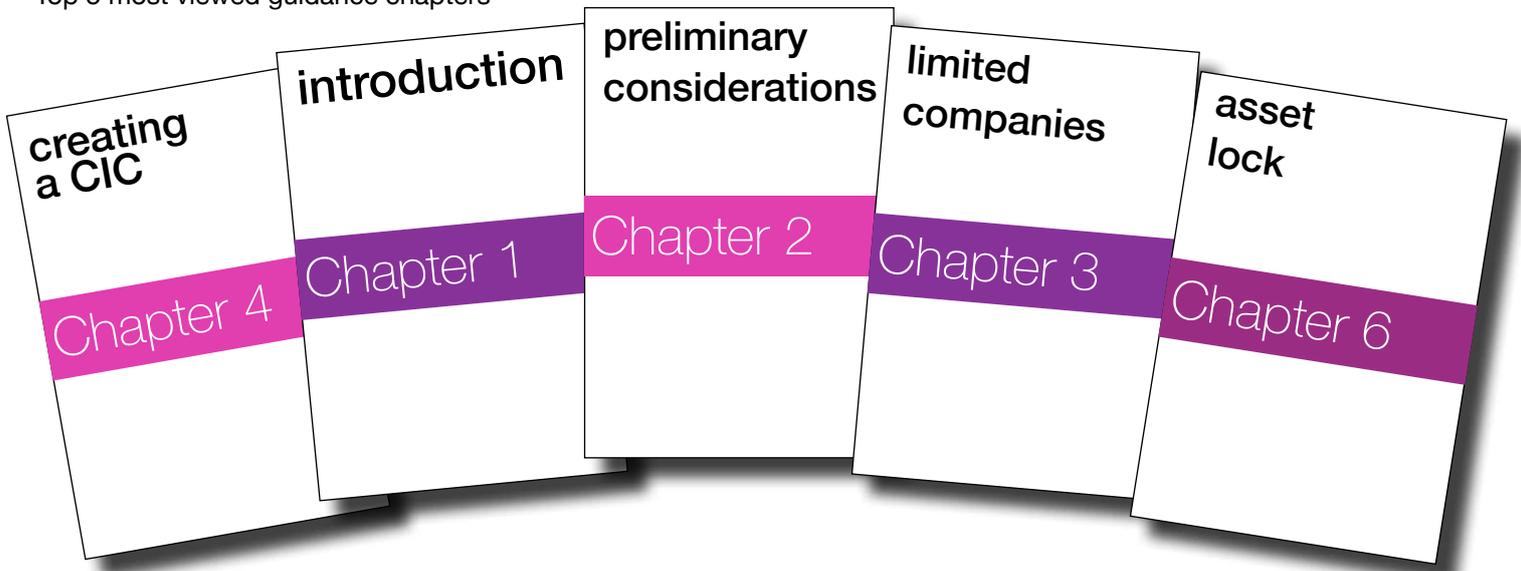


With continual improvements to our website we have reduced the number of calls received by the Regulator's Office by 22%. This does not make us complacent and we are still committed to delivering understandable and easy to access information. ➤

Top 5 most viewed pages



Top 5 most viewed guidance chapters



Quotes

“Everything about GOV.UK is based, directly, on user needs”

“GDS will continue to adapt and refine GOV.UK”

Key Statistics

After 8 years of operation the CIC form continues to flourish and this year we have received a record 2,751 applications, an increase of 17% on last year. We have approved more cases too with 2,494 applications receiving regulatory approval, compared to 2,055 last year – up 21%. The number added to the public register has increased by 20% and we are pleased to report that there were 9,177 CICs on public record at 31 March 2014.

We also saw 976 CICs dissolve during the year, a 2% increase which reflects 10% of CICs on the public register. We are very much aware that these are difficult economic times and CICs are no different to other companies in this respect. The majority of CICs that fail do so within the first three years and many cite lack of investment as the primary reason.

We are hopeful that the changes the Regulator will be making to the dividend and interest caps later this year will help make the CIC model more attractive to investors – time will tell! It is hoped that this will result in an increase in interest in the share model, as at the current time 78% have opted for the limited by guarantee model. ➤

Growth in CICs

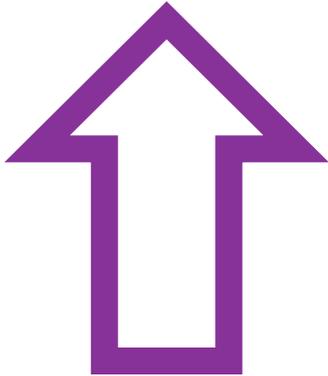
Financial Year	Approved	Dissolved	Converted	Increase	Cumulative
July 05 - March 06	208	0	0	208	208
April 06 - March 07	637	0	0	637	845
April 07 - March 08	814	35	3	776	1621
April 08 - March 09	1120	86	2	1032	2653
April 09 - March 10	1296	372	5	919	3572
April 10 - March 11	1824	483	7	1333	4905
April 11 - March 12	2087	590	11	1486	6391
April 12 - March 13	2055	765	11	1279	7670
April 13 - March 14	2494	976	11	1507	9177
Total	12535	3307	50	9177	9177

CICs by region	Number	%
East Midland	521	6
East of England	712	8
London	1440	16
North East	533	6
North West	1318	14
South East	1164	13
South West	1121	12
West Midlands	1024	11
Yorkshire and Humber	521	6
Total England	8354	92
Northern Ireland	129	1
Scotland	409	4
Wales	285	3
Total	9177	100

Total Number of CICs on the Public Register by CLG and CLS

	Mar-13	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Total
CLG	5908	158	106	109	126	88	63	94	83	92	88	94	148	7157
CLS	1762	26	15	26	23	13	5	29	32	26	16	31	16	2020
	7670	184	121	135	149	101	68	123	115	118	104	125	164	9177

2%



the increase in dissolutions on 2012/2013

9,177



CICs on the public register

7 new CICs established almost every day
20% increase to the CIC register

976

CICs dissolved

5,259



reports filed



2,494

applications this year

50

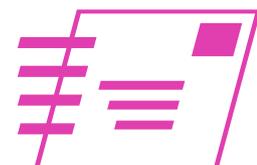
CICs have converted to charities

3,410



telephone calls

2,253



e-mails

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