

Regulator of Community Interest Companies



Annual Report 2012/2013

Regulator of Community Interest Companies Annual Report 2012/2013

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

During the period of this report, the Office of the Regulator of Community Interest Companies (CICs) became part of the Department for Business, Innovation and Skills (BIS).

Miss Macaroon CIC is the brainchild of a young pastry chef...
...in the Community...
...founded over 20 years...

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Miss Macaroon CIC is the brainchild of a young pastry chef...
...in the Community...
...founded over 20 years...

The CIC helps young adults coming out of care in
ham who are not currently in education, employment
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o with personal social development including anger
ement. The on-line enterprise is funded from the
1,500 macaroons a day and is going from strength to
n. The website is:

missmacaroon.co.uk/

Community Interest Company

CIC is the brainchild
of a group of young
adults who are
currently in care
in Birmingham.
The company
produces
macaroons
and sells them
online.
The company
is funded
from the
sale of
1,500
macaroons
a day.

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.
6. To support the Department for Business, Innovation and Skills in achieving its objective "Encourage enterprise, growth and business investment"



Foreword

Welcome to this annual review of the work of the Office of the Regulator of Community Interest Companies and of the growth and development of the CIC model.

It seems that no sooner have we got one annual report off the press than it is time to start looking at the next one and I hope you will agree that this year is yet again an improvement on the year before, as we build on the great new format we introduced last time. We really enjoy putting this report together and it is on our agenda all year so I hope you enjoy reading it.

This year has seen us really move on as a relatively new and learning regulatory body from a focus on registration in the opening years to bedding in our regulatory processes as the number of CICs has increased. I have worked closely with a number of regulators over the last year to learn from their experience and when I visited the Charity Commission a while ago, I was struck by our similarities but also our differences. My team of 6 is definitely petite in comparison and it drove me to describe us as a baby regulator. I believe, however, that there is strength in the whole team being involved and understanding all aspects

of our regulatory role and this year's report certainly reflects this.

This year has been a real turning point for us which reflects the increased number of CICs on the public register. We take information from the community interest reports received (over 4,000) to sample the conduct of CICs against the regulations. Actually they are doing some great work and it is not often we have to pick up on things. We are though reviewing how we do this to ensure we are not missing anything.

In addition there have been many more concerns and complaints lodged with us. Each one is given careful consideration within the framework laid out in the Code of Practice and our own procedures which require us to be accountable, transparent, targeted, consistent and in particular proportionate. We also try to be helpful.

We have developed our systems and processes to ensure that we approach our work with these principles in mind and we are doing everything we can to minimise the burdens on compliant and well run businesses while making sure that those who seem to be less

responsible are made aware of the consequences of their actions.

We have still to reach that milestone of having to apply the full powers of the Regulator but I draw the line at hoping someone will invoke our wrath because the great news is that the majority of CICs are doing what CICs are meant to do and continuing to do it in really challenging economic circumstances.

We have also looked into the reasons why some of our CICs are dormant and the results have been fascinating. The purpose of our research was to try to find out about the challenges facing these CICs and what we could, as their regulator, do to help. I certainly regard one of my key functions is to listen to the concerns of CICs and to feedback to ministers what I have heard.

Surprisingly (and pleasingly) I found that, in very many cases, dormant is entirely the wrong word. They are like the proverbial swan – not a lot happening above the water but paddling like mad underneath to get to where they want to be. It's very encouraging to hear and we have really appreciated the time taken by these guys to let us know how

By Sara Burgess, Regulator of Community Interest Companies

tirelessly they are working to get going. We are listening and working on your behalf, please keep it up, we are right behind you.

Regulation has been a hot topic through the year and quite rightly so, with the Government being keen to ensure that the burden of regulation does not overpower the ability of the business to grow and develop. The Red Tape Challenge tells us that regulation should be a positive approach and that is very much our view. The secret of good regulation is that it should not be heavy handed or disciplinary but having underlying implications for disproportionate transgression of the requirements taken on by a company. They become CICs by choice and as a regulator we never forget that.

The impact of regulations does need to be constantly taken account of and the autumn saw the satisfactory conclusion to closing a gap in the Regulations that occurred when the Companies Act 2006 was introduced. This had no impact on CICs but what we learned was that addressing legislation is jolly hard work. Which is how it is intended. In my report last year, however, I also said in 2010 that

we would review the changes to the share dividends to assess the impact. With the above experience in my mind it was with trepidation that I stepped back into the firing line to consider whether there is a need to make more changes, to make CICs more marketable in terms of investment. Our department (Business, Innovation and Skills) is committed to growth and we want to do everything we can to make sure CICs are not prevented from being a part of this agenda.

I do at this point want to take this opportunity to reassure those who have concerns about the impact of change on the integrity of the model. There is always debate about defining social enterprise and the eligibility to be one. There is however no doubt about the definition or the purpose of a CIC. It is a public commitment to a way of doing business and "once a CIC always a CIC". This applies even to those public health spin outs, lotteries and all the other types of enterprise that have been controversial throughout the last year or so. This strength must not be compromised, nor must we open the model up to wider abuse.

Continued ▼

Foreword Continued ▼

It is with this in mind that any decisions about whether change would be beneficial or not are and will be taken.

April 2012, though, did see us two years on from the changes made to the Regulations in regard to share dividends and performance related interest and I had indicated that this would be long enough to gauge how it had worked in my response to the consultation in 2009. Plus, in response to increasing hints that more could be done, we worked with the CIC Association, who survey their members every year, to learn more about this. It meant that every CIC that was registered at November 2012 was written to; over 7000!! Not sure we can do it again with the increasing numbers and we had a very short and unexpected timeslot, the poor old photocopier nearly passed out, as did my team. Still they are experts on mailmerge now.

In February 2013 the CIC Association reported on their findings to my advisory panel, known as the Technical Panel. As a result I have decided to consult on investment into CICs, focussing again in particular the share companies and equity investment. I had intended this consultation would be completed by the end of the summer in 2013 but in the meantime the Treasury is going to be consulting on social investment, so having taken advice, I will wait until we know the impact of any proposed changes on CICs before launching our own consultation.

Now we are on the road to more change, next years report will offer further insight into how CICs are evolving in an economy that is increasingly social enterprise oriented.

In the meantime, I and the team will be continuing to work to raise and maintain the profile of the CIC model. I hope to see it becoming more influential in the social economy and building on the impact it has already had in the first seven years.



Highland Perthshire Area AKA Enchanted Forest

Executive Summary

After 7 years of record growth, this year has seen the number of CICs added to the register drop from the previous year for the first time. We have however received more applications than ever before and we are addressing the reasons for this which may in part, be due to the reduction in the Regulator's promotional activities and we touch on this later in the Summary. Yes, the number of dissolutions has increased but the failure rate is proportional and is not as much as for ordinary companies. We also know that many of our CICs have difficulty with the application process which involves not just our Office but also Companies House and the error rate is far too high, not with our forms but with Companies House forms and in particular the form IN01. Far too many of the applications returned do not proceed with CIC status and that is an opportunity missed. Key to everything is giving CICs the facility to file their application on-line and the opportunity to get it right first time. We share their frustration at having to submit papers and cheques by post and we are working closely with the Registrar of Companies to resolve this sooner rather than later.

We also reviewed more community interest reports (form CIC34) than ever before as a direct result of the increasing numbers of registered companies. We have looked again at our internal procedures to meet this increased demand and made a number

of changes which has strengthened our regulatory role. We have also improved the design of the form CIC 34 which should make it easier for CICs to tell us what they have done and for us to monitor compliance.

Interest in creating more CICs this year has ranged from meetings in Wales where we are based to consider how we can raise more awareness locally; to contact with delegates from other parts of the world who want to develop new models for business that might be similar to ours. The social enterprise sector in the UK has created a lot of interest around the world. The UK is seen as an international leader and CICs have been of particular interest in Japan, Korea, Italy, and France and especially in Canada where the model has been used as the template for a form of company in British Columbia and this year a bill has been introduced in Nova Scotia to establish a form of CIC. It is a reflection of the credibility of the CIC structure that it is being adopted elsewhere.

As the numbers of CICs being registered continued to increase it became apparent that we would not have the capacity to meet the demands of projected growth. Changes have been made in recent years to rationalise our work and to improve working practices to ensure we could continue to meet our own operational targets. In 2012/13 this has worked well but we cannot afford to stand still.

To this end, we started looking at restructuring the team to ensure that by 2015 when the current Regulator's appointment comes to an end we will have the capacity and resources to comply with regulatory and policy requirements into the future.

In February 2013 we appointed a Senior Manager to take forward the policy, regulatory and development work and the next phase is to replace the existing Office Manager's role with a newly defined one. From there we will look at what is needed to maintain the Office's reputation as a centre of excellence in regulation.

This is all being done within our budget restrictions and our accounts this year once again showed us coming in under budget for our grant from the Department for Business, Innovation and Skills. In order to achieve this the Regulator reviewed and cut down on some of the promotional work she has been involved in previously. This is however an important part of the way we conduct ourselves as a regulatory body and we want to maintain the high profile of the Regulator being "out there" and approachable. The downward drift in registrations may be connected to this change; we certainly continue to hear that one of the key things that should be happening is greater and wider promotion of the CIC model to a wider audience. So we will try to address this in our objectives for the coming year.

The other area of interest in CICs is through research which can offer such interesting insights into the development of the model. A piece of work being done by John Sheppard the Professor of Geography at Birbeck University of London that has been developing throughout the year is spotlighted in this report and the details offer fascinating reading not least in what we have named the Croydon Effect. There seemed to be an unusual concentration of CICs in Croydon which did not match the general spread. When John asked us about it we put it down to the fact that the Regulator had spent a lot of time in Croydon delivering CIC workshops. More research on CICs is being done at Judge Business School and we hope to have something to say about that in next year's report.

A number of discussions took place this year to update Memorandums of Understanding and to establish new ones with other regulators and key organisations.

MaD (Make a Difference)

“We believe
in the way we
do business”

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.

She is a fellow of the 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 bring a range of skills to the office and are all committed to delivering the highest levels of customer service.

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



Sara Burgess
CIC Regulator

Phil Horrell
Policy Manager

Ann Hunt
Case Manager

Jaci Lewis
Case Manager

Marilyn Liddon
Case Manager

Helen Huish
Case Manager

Natalie Westgarth
**Operational
Support
Manager**



“
customers
are at the heart of everything we do
We are committed to improving
the way in which we deliver services
and high levels of satisfaction
”

Anyone contacting the Regulator's office will receive prompt and personal attention to their enquiry. The Regulator's vision is of a team that is helpful, well informed and professional in their approach to, and understanding of, the needs of community interest companies. She has helped develop an outward facing office dedicated to exceeding expectations and driven to deliver the highest standards of customer care. We aim to answer every call or email within 48 hours and to do so in a helpful and professional manner.

Key facts:

- 6, 669 telephone calls
- 2, 873 emails
- closer working relationships with the Call Centre and the Customer Care Team in Companies House, aimed at delivering improved levels of customer service
- continual improvements to our website aimed at delivering understandable and easy to access information

Growth

The number of community interest companies on the public register continues to grow despite the current economic conditions. Coupled with record registrations, we have seen an expected increase in the number of CIC Reports and dissolutions filed. Processes have been reviewed and streamlined to meet these increasing demands.

CIC Applications

Applications are first reviewed by the Registrar of Companies to ensure that they comply with company law and then passed to the Regulator for approval. The process may take up to 7 working days to complete. The 2,055 registrations was just 32 short of last year's record and this is a consequence of lower approvals in March because of the early Easter holiday, down 41 from the year previous.

CIC Reports

With over 4,000 reports filed this year, we find that CICs are increasingly using the report to showcase their activities and inform their stakeholders about the excellent work they have done over the last year. Most of the reports are informative and detailed, with a very small number, less than 5%, that could do better. The Regulator finds this encouraging as the report provides an opportunity to assess how CICs are performing and what she could or should do to help CICs. The report also offers a level of transparency and accountability not provided by ordinary companies and, as it is placed on the public register, is key to ensuring community purpose is delivered.

Dissolution

The number of dissolutions (766) represented 10% of the register with over 72% trading for less than 3 years. Of these, 70% had been dormant and were struck off by the Registrar of Companies for not filing their statutory documents. Less than 1% were subject to compulsory liquidation. The key reasons for the companies dissolving were lack of funding, no trading activity and poor corporate governance.

Key facts:

- 98% of applications to become a CIC processed in CIC Office within 72 hours
- 2,055 CICs placed on the public register
- 7,670 CICs on the public register
- 20% increase in CICs on the public register
- 766 CICs dissolved
- 10% of CICs on the public register dissolved
- 72% of CICs dissolved were operating less than 3 years
- 4,163 CIC reports were filed this year

2,055 CICs
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The Community Interest Report

All CICs have a legal duty to file a community interest report 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 with its stakeholders in carrying out activities, which benefit the community.

The strength of the report rests in the fact that it is placed on public record and can be viewed by anyone interested in the CIC and its activities. This offers a level of accountability and transparency not available from ordinary companies.

We realise that there is a natural reluctance to form filling especially government forms and, for many, brevity is the order of the day. We try to overcome this by encouraging CICs to use the report to showcase what they have done and champion the benefits they have delivered to the community. It offers them an opportunity to tell their story of how they have performed in these challenging times, the social impact they have made and their plans for the future.

In the last year we received over 4,000 reports. Personal accounts that tell of difficult times, plans stalled and setbacks, of funding secured, contracts delivered and ambitions realised. They quite simply provide a body of evidence, in a way never before seen, of how the social enterprise sector is meeting the challenges of the economic downturn.

So what have we learned?

- no two companies are the same and that being a CIC does not guarantee funding. Some secure funding, others do not, those that do have a well developed business plan, strong corporate governance and demonstrate an understanding of social impact;
- declaring dividends is not uppermost in CICs minds and we have seen only a handful pay dividends in recent years. This could be due, in part, to the complexity of the dividend cap and the Regulator has, and is, taking steps to resolve this;
- the asset lock is well understood and is adhered to and many CICs have given to good causes. The Health Lottery for instance has contributed over £29m in the last year;
- CICs are very creative with the way in which they engage with their community, from formal and informal meetings, newsletters, leaflets and extensive use of social media. It is all about communication, CICs have a story to tell and they need to get the message out;
- as the brand matures we have seen greater depth and analysis in the reports provided. Very few deliver low quality reports and if the Regulator is not satisfied with the level of detail provided, she will take action;

we recognise that it can take a while for a CIC to begin trading. Securing funding, premises and contracts does not happen overnight. It is important however that CICs deliver benefit to their stated community and as such cannot remain dormant for an indefinite period. If a CIC is still dormant after a number of years they can expect a gentle nudge from the Regulator enquiring about their progress and reminding them of their need to satisfy the community interest test;

- director's remuneration is a hot topic. We expect directors to be paid for their services and for such payments to be transparent and affordable. We also expect a balance to be struck against generating personal financial return and delivering the stated benefit to the community. That is the key, if the reports and accompanying accounts suggests that the remuneration is excessive the Regulator will take action;

We could not close a review of the community interest report without highlighting a few which caught our eye. With over 4,000 it was an almost impossible task to select any above others and we apologise to those brilliant CICs that we have not included.

We do hope however that the following give a flavour of the diversity, passion and commitment of our CICs, all of which have provided inspiration to the Regulator and her team over the last year.

Holder House Garden CIC formed in 2008 manages an allotment site where horticulture enthusiasts can enjoy their hobby, while learning new skills and meeting new people. It works in partnership with local community groups including adults with learning disabilities, older people's services, children's education services, and parents and carers associations. It offers a range of activities including horticulture, crafts, sensory, training, work experience, healthy walks and evening and weekend activities. The inclusive environment helps groups understand each others difficulties which in turn help promote rights, independence, choice and inclusion. The website is:

<http://www.holderhouse.co.uk/>

Continued ▼



Miss Macaroon CIC is the brainchild of a young pastry chef from Walsall. Rosie Ginday launched her social enterprise in 2011 producing an extensive range of hand baked French macaroons. The CIC helps young adults coming out of care in Birmingham who are not currently in education, employment or training. They offer a positive experience of the workplace and help with personal social development including anger management. The on-line enterprise is funded from the sale of over 1,500 macaroons a day and is going from strength to strength. The website is:

<http://missmacaroon.co.uk/>

Starr in the Community CIC is the Circus with a Purpose. Formed over 26 years ago to support a local hospice that was struggling financially, the circus became a CIC in 2010. Through sponsorship from local businesses, donations, and other forms of fundraising, tickets are given free of charge to children's charities and community groups enabling underprivileged children and disabled children to

enjoy a memorable day at the circus. Over the years over 1 million children have had the chance to see and experience the magic of the circus and in 2012, £1.376m worth of free tickets were donated to British children through schools and organisations. It is also unique in supporting a local charity in each town it visits and has raised over £900,000 in the last 10 years. The website is:

<http://www.circus-starr.co.uk/>

Mental Health First Aid (MHFA) England CIC formed in 2009 delivers courses which teach people how to recognise the symptoms of mental health problems, how to provide initial help and how to guide a person towards appropriate professional help. Organisations using MHFA include The John Lewis Partnership, The Princes Trust, local authorities and central government departments and the police and prison service. Recognised as a world leader the CIC now has over 650 instructors in England delivering the MHFA course to over 50,000 people. The website is:

<http://www.mhfaengland.org/>



Dissolutions

There were 766 dissolutions this year representing 10% of the register which was a marginal increase on last year. We do know however that nearly three quarters of these had been trading for less than three years and most had been dormant throughout.

The Regulator has taken steps over the last year to try to learn the underlying reasons for the dissolutions and this has included a full review of each application to dissolve. We look at the specific circumstances to see if there are any emerging trends and what, if anything, we could do to help. In the last year the North West saw the most of the dissolutions with 20%, followed closely by London with 15%. Currently London and the North West have the largest number of CICs on the register sharing close to 30%, so it is not surprising that they also record the highest number of dissolutions. We also know that most dissolutions come from the education and health sector and again this comes as no surprise as the vast majority of our CICs are engaged in these sectors. For instance the health sector encompasses social care, social housing, counselling, physical well being therapies and PCTs.

The key reasons for the companies dissolving continue to be lack of funding, no trading activity and poor corporate governance.

We also looked to see whether there was any direct correlation between companies being dormant and dissolving. We concluded that dormant is probably the wrong term because it suggests inactivity and for many that is not the case. We saw CICs actively seeking planning permission, trying to secure contracts and access funding, most were optimistic and felt that things would improve. We know that 21 months from incorporation is the critical time for CICs because this is when they are required to file their accounts and community interest report. Those that fail to file at this time are liable for late filing penalties from the Registrar of Companies and many decide to dissolve rather than pay the (increasing) penalties. Companies House remind companies of their responsibilities and we are actively considering ways in which we can place corporate governance uppermost in the minds of CICs especially those that are deemed to be dormant.

25%
cited lack of funding

20%
had not traded since incorporation

15%
stated the company was no longer a viable company

0.5%
contracts not awarded

Complaints

We believe that to be an effective Regulator you need to have a robust complaints procedure in place. It's quite simple really, people need to know who they can complain to and they need to feel confident that their complaint will be taken seriously. We have continued to work hard over the last year to meet these two requirements and our process is now simpler and quicker.

We are proud to announce that in the last year we did not receive a single complaint against our office which is a remarkable achievement and which reflects the hard work and dedication of each member of the CIC team. This does not make us complacent however; instead it drives us forward to continually improve the way in which we deliver services.

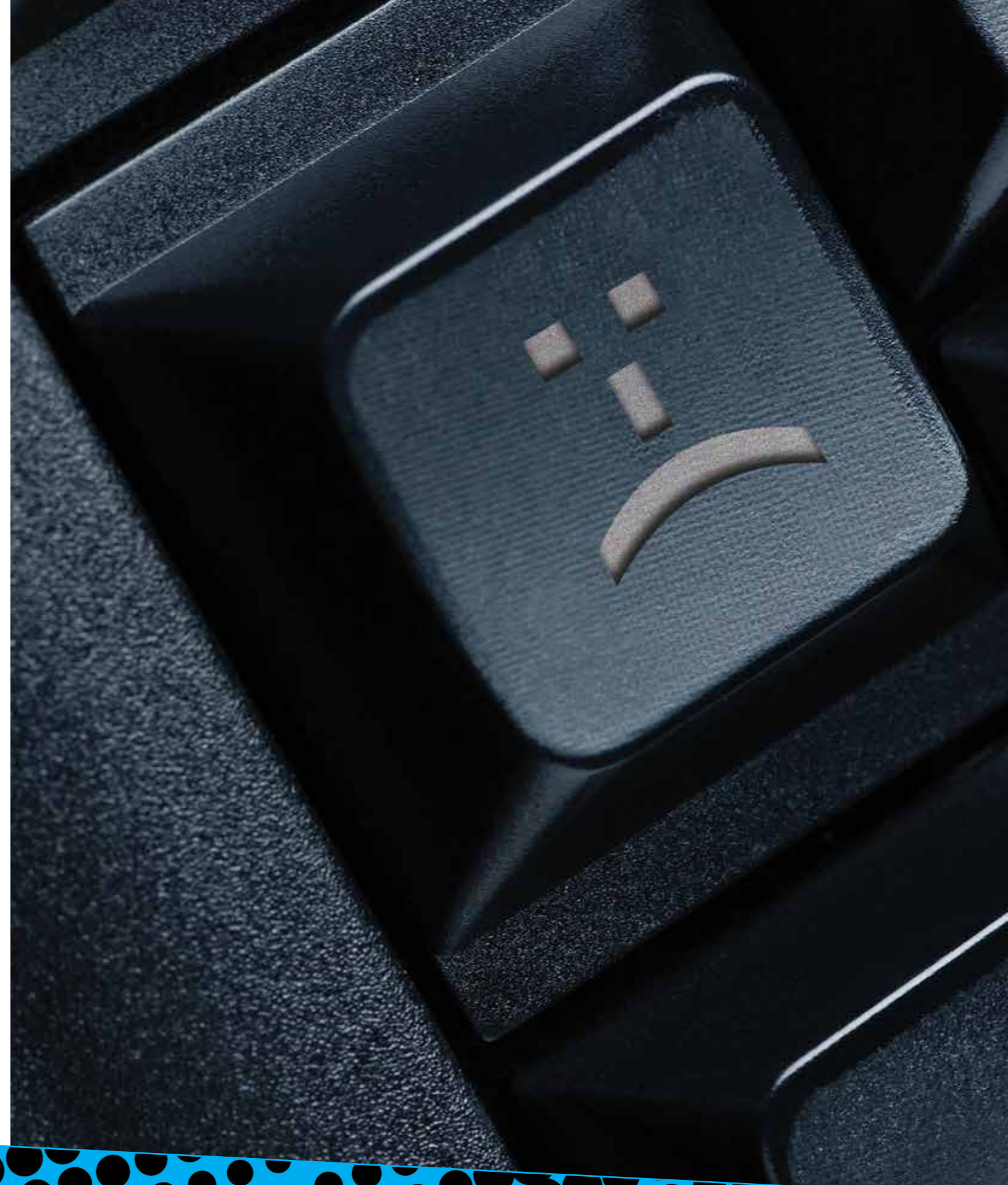
This year we have seen an increase in complaints against CICs but this is balanced against the growth in the numbers on the public register with a further 1,279 added in this year. The examples below give a snapshot of the type of complaints we receive and the action taken by the Regulator:

- the Regulator worked closely with a number of organisations including Trading Standards and the Insolvency Service to close down a CIC allegedly collecting funds for a charity through doorstep clothing collections;
- social media has raised its head for the first time with unprofessional comments being made by CICs on Facebook, Twitter and on-line forums. The Regulator takes such complaints seriously and reminds directors of the need to be professional at all times;
- we have sought and received assurances from a number of CICs that have strayed into political activities and they have taken action to ensure that such instances will not recur;

- the asset lock is key to the CIC structure and we have pursued CICs that have been in breach of the regulations. We have also contacted Insolvency Practitioners to remind them of the special rules relating to CICs and residual assets;
- we quite often get told that one of our CICs owes money, or is unresponsive to letters or phone calls or is being particularly difficult in their dealings with the complainant. We advise the complainant to inform the CIC that they have been in touch with our office and they have 14 days to respond before we get involved. We are pleased to note that this secures the required response on the vast majority of occasions;
- many CICs have close contact with vulnerable people and we expect them to behave with the highest standards and to treat their clients with sensitivity and care. Where a CIC has fallen short of these standards we have taken action;
- we have cautioned a number of CICs involved in fundraising that have given the misleading impression that they are a charity; this includes street collections and shops on the High Street. Members of the public should not be misled in this way and assurances were given and measures taken to prevent confusion.

We still 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 our CICs act appropriately and if we consider the matter serious enough, we will take action.

Continued ▼



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. We would act if we felt that confidence in CICs was being undermined or the integrity of the brand was being affected. It does not necessarily follow that the CIC has to be a large multi-national company; we have taken action where the CIC has a single director.

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.

The following are the type 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 Authority Trading Standards Office (with whom we have worked closely on a number of complaints received) or the Citizens Advice Bureau;
- 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 CIC's 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 the Companies Investigation Branch 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.

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

It has to be said that CICs tell us they welcome having a Regulator and view this extra tier of regulation as an assurance that they are serious about delivering benefit to the community. There are over 2.7 million ordinary companies on the public register against 7,670 CICs; for those that fall short of the standards expected and are likely to bring the brand into disrepute the Regulator is prepared to take any action necessary to maintain confidence in CICs.

NATURE	COMPLAINANT	ACTION TAKEN
Criticism of CICs policy towards fundraising	Media	As the case was high profile it was deemed necessary for a meeting to be held between the Regulator and the CIC. It was agreed that the CIC would overhaul collection procedures and CIC was also steered towards the Fundraising Standards Board for guidance. The case was closed however the CIC subsequently dissolved.
Alleged fraud against two directors of a CIC	A Director of the same CIC	The Regulator advised that on evidence produced that it was an internal matter for the company. The alleged fraudulent directors subsequently resigned and complainant pursued matters through the courts. The case was closed
Concerns about directors' behaviour	A disability organisation	Correspondence and a telephone call were exchanged between the director concerned and the Regulators Office in which assurances were received that there would not be a repeat of the alleged behaviour and that significant steps were being taken to assure this. The case was closed
CIC in breach of CIC Regulations by undertaking political activities by way of promotions on their website	A member of the community	The Regulator's Office wrote to the CIC explaining the complaint and asked them to remove the information from their website and make assurances that they will not undertake such activities in the future. Both requests were positively responded to and case was closed.
Allegation of misappropriation of Funds against a high profile CIC	A key funder	As this was a high profile CIC the Regulator decided to visit the CIC. She received assurances that the accounts were above board and was satisfied with the explanations received. The CIC was closely monitored however no evidence of the allegation was found. Case was closed.
Inappropriate transfer of assets on the closure of a CIC	A member of the public	Concern was raised that a CIC had transferred its assets to another company which appeared to breach CIC Regulations. The complainant was assured that the company to which the assets were transferred was a registered CIC and was named in its Articles of association and that this was within the CIC regulations. Case was closed.

Complaints Procedure Flowchart





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 2010 Spending Review. The measures that we have taken throughout 2012/13 contributed to a saving of £10,000 and recovery of cost to expenditure of 34%. The measures included:

- greater reliance on digital data reduced stationary costs by 70%
- 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.

A. Expenditure

	2012/13	2011/12	2010/11	2009/10
31 March	280,000	290,000	340,000	450,000

B. Income

	2012/13	2011/12	2010/11	2009/10
31 March				
Formations and Conversions	2,070	2,087	1,824	1,298
CIC Reports	4,163	3,040	2,259	1,571
	95,000	77,000	61,000	43,000

C. Percentage of Income against spend

	2012/13	2011/12	2010/11	2009/10
31 March	34	26	18	9





Developments

Website

Interest in CICs is continuing at pace and this is reflected in the hits that our website receives, which is an average of 11,000 per month from countries as diverse as the USA to Denmark and Moldova! More on the global interest in the CIC model later in this review.

The most viewed pages are our Introduction, Forms and Guidance. Within our guidance the most viewed chapters are Chapter 4-Creating a CIC, Chapter 1-Introduction, which includes legislation and overview of CICs, and Chapter 2- preliminary considerations. This tells us that the majority of those that visit the site seem to be more than just curious and are more likely to be considering setting up or converting their organisation to a CIC. We welcome feedback on the helpfulness or otherwise of our website and we always take action if we hear of ways in which it can be improved. For instance, if we are advised that someone is unable to find an answer to a specific question we revisit our site to ensure that our Guidance covers this and if it already does, that it is better signposted.

It is these incremental changes combined with our positive approach that makes the difference.

Plain English Project

We have received many positive comments on the content and the ease of searching of our website however we are not complacent and we are continually looking at ways to improve this for our customers. This year the team has been in discussion with the Plain English Campaign and has been working hard to ensure that the website and our guidance pages meet the Plain English standard.

The Regulator contacted the Plain English Campaign in July 2012 asking if they could conduct a review of our website pages and offer any suggestions for improvement. The general comments offered were that it was a well laid out site with clear options however; they offered suggestions mainly involving technical and navigational issues that would ensure that the website met their standards.

The team has worked hard to implement the recommendations which include:

- ensuring that links are up to date and correct;
- ensuring that the site is free of jargon;
- increasing the typeset in our Guidance Notes.

We hope that you will have seen the benefit of the action we have taken. This is an ongoing project and we welcome any comments or suggestions for further improvements.

"I wanted to write and congratulate you on a first rate information pack. I found it understandable and easy to read. It covered everything I needed to know. Thanks very much...I only have time to write because I didn't have to waste time trying to make sense of impenetrable English and corporate jargon"

Global Interest

The UK is widely recognised as having the most highly evolved social enterprise sector in the world and this

is due, in no small part, to CICs. We are seeing increased global interest in the work of our office and this year was no exception. The following is a description of the meetings and talks that we have held this year with representatives of countries that have expressed interest:

British Columbia

In May 2012, legislation was passed in British Columbia which led the way for the first hybrid social enterprise structure in Canada. The Regulator has been watching developments with keen interest and has offered her support and experience. The new legal form is known as the Community Contribution Company or C3 for short. It has a lot of the features familiar to our model such as a cap on dividends, an asset lock and community reporting. It is expected that Regulations will be passed in 2014 which will provide the framework to allow social enterprise to set up as C3s.

Japan

In August 2012, the Regulator met with representatives of the Japanese Government. They were keen to learn more about the services being provided by our CICs and whether a similar model could be introduced to encourage social businesses to procure for work that is currently within their public sector. They were especially interested to hear about CICs delivering local authority contracts and were fascinated to learn that 90% of the health spin-outs have opted for the CIC model delivering a total £900m community health budget.

Nova Scotia

Throughout 2012, the Regulator has been sharing her experience of CICs and the significant impact that they have had in changing the social enterprise landscape with the Government of Nova Scotia. We were delighted to see the Community Interest Companies Act introduced on 28 November 2012 which will help communities start businesses that have a social purpose. It will now be necessary for the province to create regulations for the new Act which will bring the legislation into force.

There are very close similarities between the two models including:

- the need to operate with a community purpose,
- the asset lock and;
- the community interest report

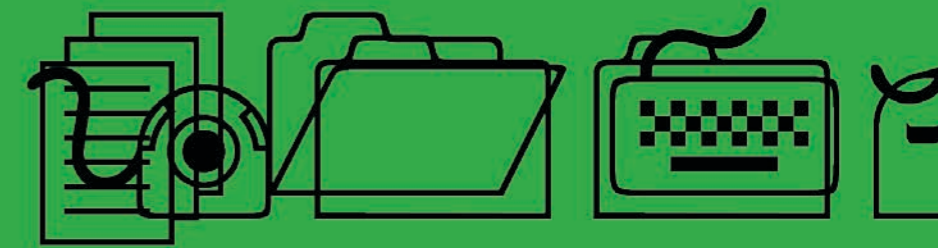
Interestingly all CICs will have a share capital, will need to have a minimum of 3 directors and there will be no Regulator of Community Interest Companies but rather a Registrar of Community Interest Companies. We shall be watching developments with interest.

South Korea

In November, the CIC team delivered a presentation to a delegation from South Korea. The team gave a background to the introduction of CICs and detailed its journey over the last 7 years. They also gave an overview of the Regulator's powers of supervision and enforcement. A very interesting question and answer session followed which centred on the role of the state and the third sector.

// The European Research Institute on Co-operatives and Social Enterprise in Italy appreciates the light touch of the CIC Regulator in the UK and views Italian law on social enterprise as too bureaucratic and without any promotion from the government” //

Jonathan Bland, Founder Social Businesses International



Developments Continued ▼

Dividend Cap Review

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. This helps to ensure that the dividends are not disproportionate to the amount invested and the profits made by the company. The cap was last reviewed in 2009 and as foreshadowed in the response to the Regulators Consultation on the Dividend and Interest Caps Report the Regulator is looking at it again this year.

The CIC Association in partnership with our office gave an opportunity to all of our CICs (limited by shares and limited by guarantee) to comment on the current dividend cap. The CIC team issued 7085 letters inviting CICs to complete a detailed online questionnaire on the CIC Association website which the CIC Association would collate and then report the consensus of opinion. The Regulator will use these results to assist her in her deliberations regarding a formal consultation exercise.

Technical Panel

The Regulator chairs the Technical Panel which is a group of business advisors, academics, practitioners, and representatives of the funding community who advise on key issues affecting CICs. The group provides valuable feedback to the Regulator and helps her to better understand the challenges facing CICs. This year's meeting was held on 12th February 2013 where the panel considered the next steps following the changes made to the Dividend Cap in 2009. John Mulkerrin of the CIC Association shared the conclusions of their recent survey in which they canvassed CICs for their views.

Memorandums of Understanding

Over the last year we have seen a number of our CICs coming to the attention of other regulatory bodies and it is important that we develop close working relationships to encourage joint working and consistency of practice. For instance;

- the Gambling Commission has issued society lottery licences for the 51 CICs that promote the Health Lottery;
- the Care Quality Commission is responsible for a number of CICs engaged with the provision of care services;
- OFCOM has issued radio and TV broadcasting licences to a number of our CICs.

The above neatly demonstrates the maturity of the CIC brand and the diversity of its activities. We have drawn up a number of MOUs with key regulators such as OSCR and the Charity Commission, government departments such as BIS and the Cabinet Office and lead organisations such as the CIC Association and SEUK. We are currently in negotiation with these and other key regulators in updating current MOU's and securing new agreements.

Media Interest

CICs continue to generate a lot of interest in the press and we have seen particular media interest in CICs taking over Primary Care Trusts. The subject has caused great debate with 90% of all NHS spin outs opting for the CIC model but it has not all been one way with one PCT halting its bid to become a CIC following a judicial review challenge.

The Health Lottery was also challenged on the legality of its scheme following a judicial review bid by the National Lottery operator Camelot. The High Court upheld the Gambling Commission's view that the issue of multiple lotteries is a political question to be determined by the Government or Parliament. Although controversial, the debate highlighted CICs and in particular the 51 regional CICs who hold society lottery licences.

BBC Radio Stoke held a telephone interview with the Regulator which looked specifically at one of our CICs that runs a food bank. She took the opportunity to explain the role and purpose of CICs and also the role of the Regulator.

Working with Companies House

The Regulator recognises that the inability to register incorporations and file accounts on-line is frustrating to CICs and we are working closely with the Registrar of Companies to try to get this issue resolved as soon as practical. We understand that Companies House is working towards 100% e-enablement and CICs have been factored into this but unfortunately there is little prospect of this facility being made available in the near future.

The team has also been working closely with our colleagues at Companies House to ensure that our joint examination procedures are as efficient and effective as possible. The aim is to make the process simpler to complete and to reduce the time taken to approve applications. We have made a number of significant changes with Companies House this year which has helped deliver both these aims.

Red Tape Challenge

The Regulator has been and continues to be involved in discussion groups regarding the Red Tape Challenge. The Cabinet Office promotes good regulation. It protects consumers, employees and the environment; it helps build a fairer society and can even save lives. But over the years, regulations – and the inspections and bureaucracy that go with them – have piled up and up. This has hurt business, doing real damage to the economy. When people are confronted by a raft of regulations whenever they try to volunteer or play a bigger part in their neighborhood, they begin to think they shouldn't bother.

The present government has set a clear aim to reduce the overall burden of regulation. With more than 21,000 regulations active in the UK today, this won't be an easy task – but there is a determination to cut red tape and our Regulator is delighted to play a part in this.

Community Interest Companies: Geographical Explorations of the Data

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Introduction

The data that the Regulator collects on Community Interest Companies (CICs) are important to social scientists for two reasons. First, they are based on a clear definition of social enterprise, albeit a particular form of one. The lack of definition in the past has seriously impacted on research into social enterprise. Secondly, the data on CICs comes with a postcode for the registered address of the company. This means that CICs can be accurately allocated to a number of policy relevant geographies ranging from the countries of the UK, the English regions, Local Enterprise Partnerships and local authorities to cities and towns, disadvantaged neighbourhoods and small rural settlements. Viewing CICs within the context of such areas is essential for research and policy.

There are two further points about the data that make geographical research on CICs of value. The date of conversion to/registration of a CIC means we can begin to make connections with the economic and social conditions under which the number of CICs in an area grows, the rate of growth and, taking the number of dissolutions into account, the average length of life of a CIC. In addition, the fact that the activities of a CIC are explicitly community based and that CICs were set up as a hybrid between the beneficial aims of social enterprise on the one hand but are driven by an entrepreneurial spirit on the other (though with capped dividends and an asset lock in place), means that CICs can be a force for local entrepreneurial capacity building and sustainable economic development. CICs may therefore offer a way into engagement with the market economy in areas where such opportunities are lacking or lie dormant.

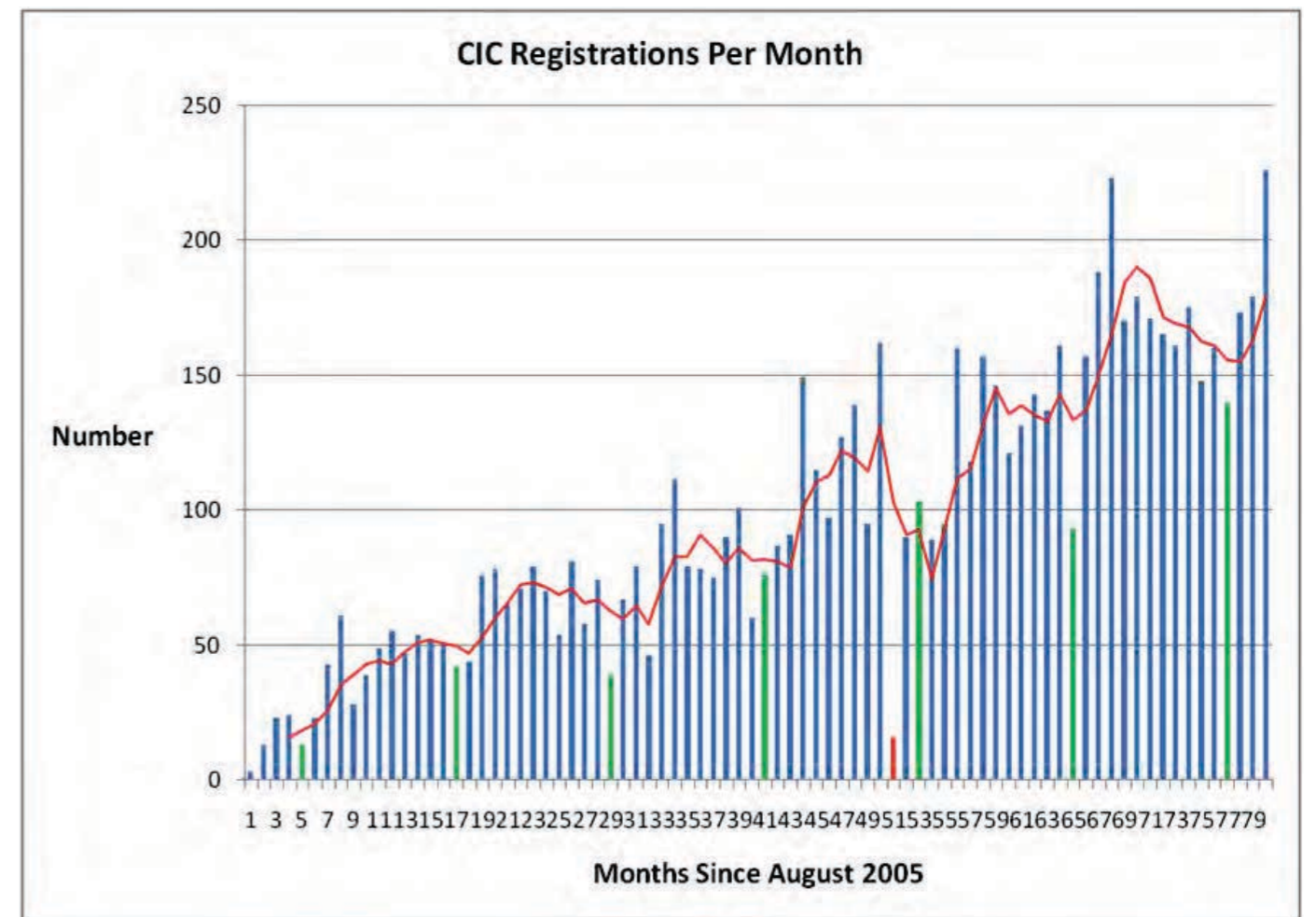
Understanding the conditions under which CICs contribute social benefit, economic growth and local service provision and how they help to engender an entrepreneurial culture are the ultimate aims of our research into the role of CICs within the social enterprise framework. The first step along this path is to explore the data in terms of some basic statistical and geographic parameters.

The Growth of CICs

The first CIC was incorporated on the 11th of August 2005. By 31 March 2012 over 6000 CICs had been registered. Figure 1 shows the numbers of registrations on a monthly basis over this period. In the diagram calendar year end frequencies are shown as green bars. The overall trend is one of steady growth at an overall average rate of 98 registrations per month which rises to 160 per month between 2010 and 2012. The graph reveals marked month to month variations in numbers of CICs registered, especially around calendar year ends. The three month running mean plotted in red indicates that these apparent periodic increases in the rate of growth have occurred at around twelve to eighteen month intervals.

These periodicities are in part due to administrative procedures and workload requirements in Companies House and the CIC Regulator's Office. Thus at month 51 (October 2009, frequency shown in red) there is a dramatic dip in the number of registrations. This coincides with a change to the Companies Act 2006 which came into force that month requiring some applications to be rejected and then to be re-submitted under new regulations. In taking research on the growth of CICs forward it will be necessary to take into account the different elements that make up the CIC 'growth profile'.

Figure 1 Growth of CIC Registrations 2005 – 2012



The Dissolution of CICs

Between 11th August 2005 and 31 March 2012 there were 1626 dissolutions of CICs in the UK or just over 20% of those ever registered in that period. Figure 2 (on next page) shows the number of months dissolved CICs were in existence before dissolution. The modal life of a dissolved CIC is 24 months. Just under 700 (42%) of dissolved CICs were dissolved within 2 years of registration, whilst 1278 (79 percent) of CICs were dissolved within three years of registration. After three and a half years of registration the rate of dissolution declines markedly. After five years of registration only 4.5 percent (n=74) CICs became dissolved. This compares well with, for example, the findings of a recent study of the life cycle of 160,000 SMEs in the Yorkshire and Humberside Region (Wilson et al 2012 p.11).

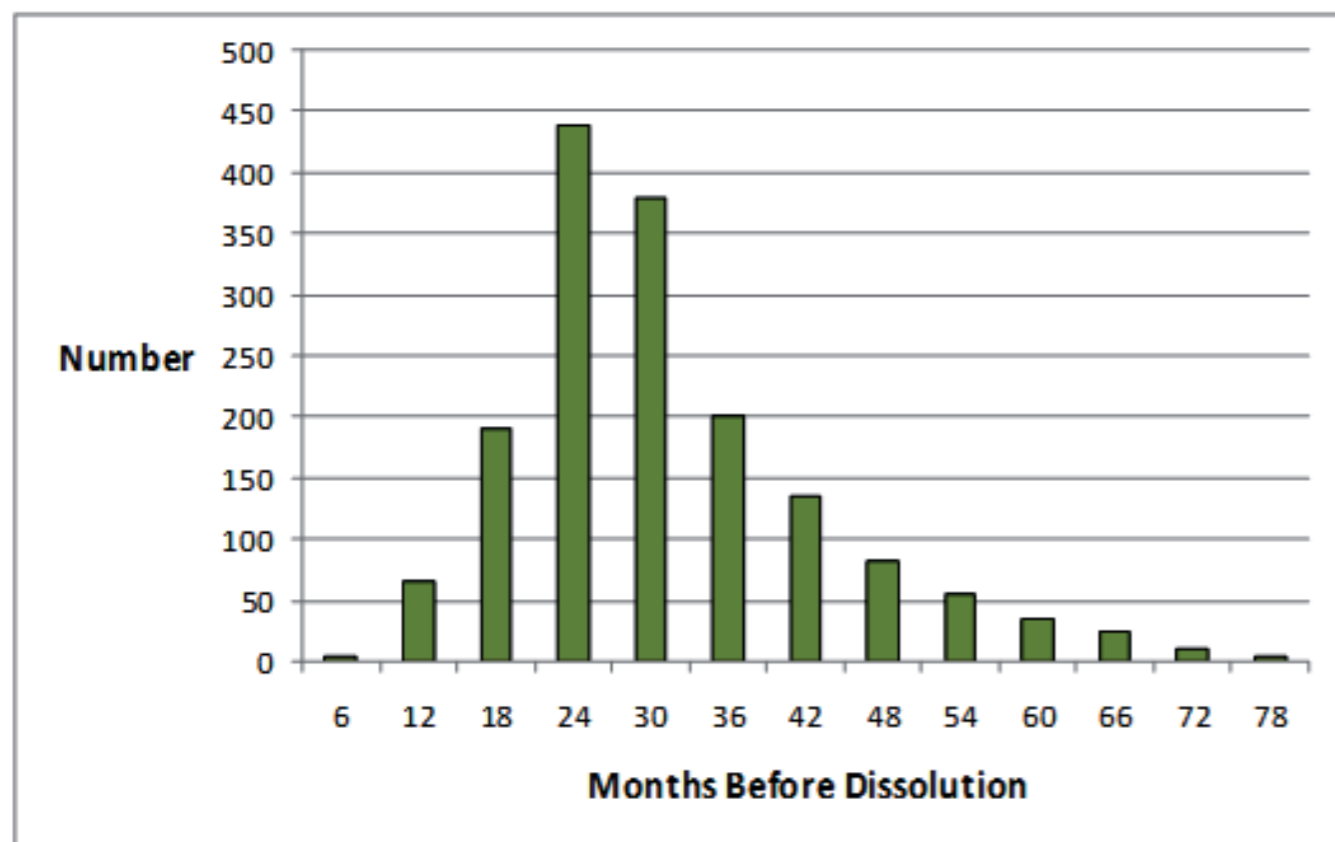
The Geographical Distribution of CICs

Almost 93% of all CICs are registered in England whilst fewer than 600 are registered in total in Scotland, Wales and Northern Ireland. When population size is taken into account Wales has relatively more CICs than Scotland (Table 1).

The reasons for the very low per capita numbers of CICs in the devolved administrations remain to be examined. They may relate to cultural and historical attitudes to social enterprise or to the fact that other company forms are considered adequate to needs in the devolved administrations.

Continued ▼

Figure 2, Length of Life of Dissolved CICs



The distribution of CICs ever registered among the regions of England is shown in Table 2 (on next page) and in map form in Figure 2. As might be expected Greater London with just under one fifth of all CICs has most registrations whilst the North West with nearly 16% of the total comes next. In third place comes the South East with 12.7% of the total and fourth is the South West with 11.9% just ahead of the West Midlands with 11.1%.

Each of these regions is different in terms of population distribution and this may offer a clue as to how to take further research forward. In general CICs are heavily concentrated in the inner parts of big cities and this can account, at least in part, for the position of Greater London and the North West. However, it is likely that other factors are at work in the South West and, say, the East Midlands, which have large rural populations.

Table 1, Number of CIC Registered in the UK, 2005 -2012

Country	Number	Percent	Per Capita*
England	7299	92.5	14.0
Scotland	296	3.8	5.6
Wales	208	2.6	6.8
NI	88	1.1	4.9
Total	7891	100.0	12.7
*Per 100,000 of population in 2008			

Table 2, Regional Distribution of CICs at 31 March 2012

Region	Number	Percent	Per Capita*	Dissolutions (%)
North East	582	8	22.6	24.9
North West	1142	15.7	16.6	22.6
Yorkshire and the Humber	478	6.6	9.2	21.8
East Midlands	471	6.5	10.6	22.5
West Midlands	811	11.1	15.1	17.1
East of England	614	8.4	10.7	16.6
Greater London	1406	19.3	18.3	26.2
South East	929	12.7	11.1	18.8
South West	865	11.9	16.6	14.8
Total	7298	100	14.2	20.9
* Per 100,000 of population in 2008				

These overall numbers and percentages should, however, be considered alongside the per capita figure for each region. When standardised by population the North East is the clear leader with 22.6 CICs per 100,000 population and Greater London falls to second place with 18.3. The relative positions of the more rural regions of the country - the East of England, Yorkshire and the Humber, the East Midlands and the South West – also become clearer when standardised in this way.

An examination of the rate of growth of 'ever registered' CICs at the regional level reveals that the North East has, in fact, led the way in the rate of CIC registration in every year except 2007-2008, followed by Greater London and the South East, although in the latter there appears to have been a gradual slowing down in the rate of accumulation of CICs. The most 'lagging' regions in terms of growth have been the West Midlands (consistently below the national rate of accumulation by some way), followed by the North West which has caught up in recent years and the East of England which emerges as having a rather variable year to year rate of CIC registrations. Also shown in Table 2 is the regional proportion of dissolved CICs. Compared with the overall England figure of 21% of CICs dissolved between 2005 and 2012, Greater London and the North East with 26% and 25%

respectively have higher rates of CIC dissolutions. Regions with relatively low levels of dissolution are the South West (14.8%) the East of England (16.6% which contrasts with its relatively low per capita rate of CIC formation) and the West Midlands (17.1%).

CICs in Small Towns

At this point we switch geographic scales of analysis dramatically to examine the position with regard to small rural towns. At this scale different factors come into play in attempting to explain the distribution of CICs including the role of local knowledge, the 'fit' of the CIC emphasis on community to the social and economic character of small towns and the role of social networks in supporting establishing and sustaining CICs.

By 'small towns' we mean the 1260 places in England with between 1000 and 40,000 population a range which includes many large villages. There are 633 small towns with at least one CIC ever registered. Of these, just under four fifths have 2 or fewer CICs and only 39 have 5 or more. The latter are interesting for their regional concentration. No fewer than 14 are in the South West and particularly in Cornwall where there is strong support for social enterprise via Cornwall Works for Social Enterprise (CW4SE), an ESF Convergence Investment, the Social

Community Interest Companies
Geographical Explorations of the Data Continued

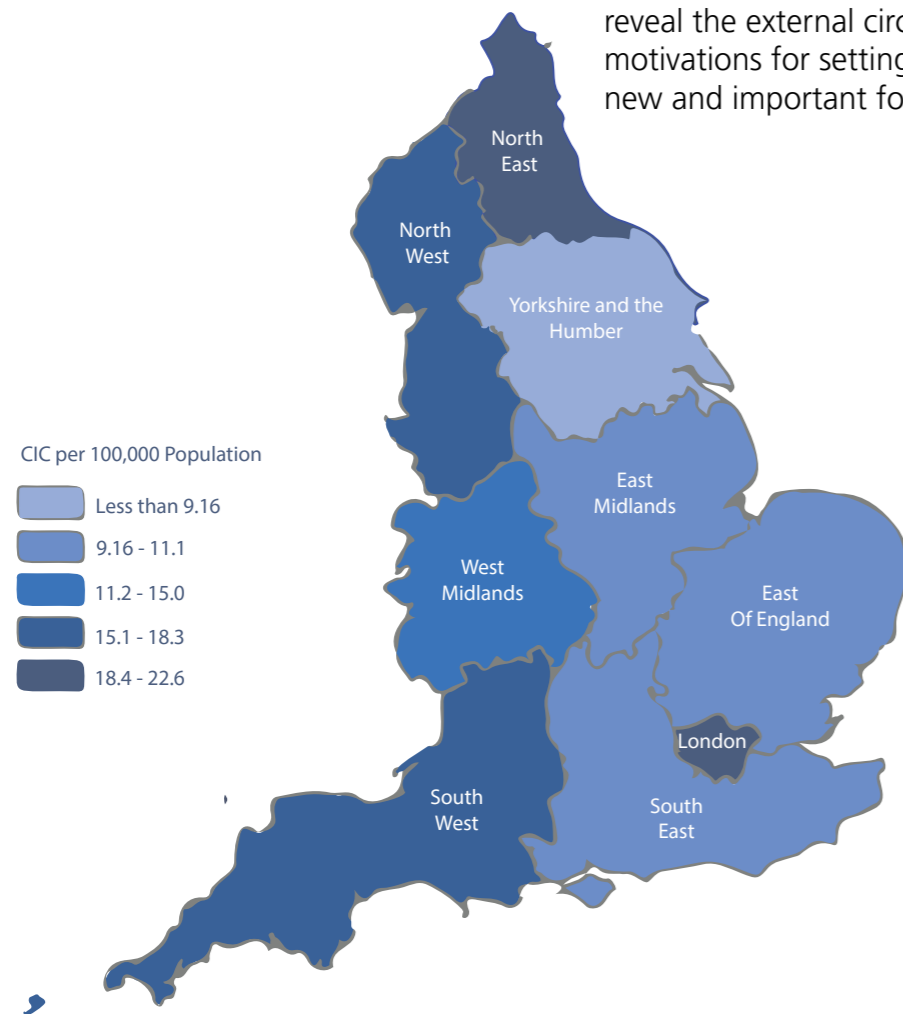
Enterprise Network of CRCC and the Cornwall School for Social Entrepreneurs in Penzance. Indeed, Penzance has most CICs (17), followed by Cambourne/Redruth (14) and Totnes (13). Outside the South West, Lewes, Great Malvern, Bury St Edmunds and Stowmarket have 7 or more CICs. Most of these places are in the upper population bracket but, against the trend, Totnes (pop c 8000) has no fewer than 13 CICs whilst Wivenhoe and Glastonbury each have 6 CICs. However, Bishop's Castle in Shropshire is in a class of its own having 4 CICs but a population of only just over 2000. Something interesting in the social enterprise world is clearly happening there!

Considering the social and economic makeup of small towns, our research indicates that coastal towns, with large numbers of retirees and people working in the leisure industries and towns typified by younger families and a local economy based on public sector and administrative jobs have fewer CICs than might be expected.

These towns are mainly, though not exclusively, found in 'Middle England'. Quite why these types of place should have low numbers of CICs (though not necessarily lacking in other forms of social enterprise) is another candidate for more detailed inquiry.

Conclusion

It is a maxim of geographical analysis that at different scales of analysis different factors come into play and different driving forces of social and economic phenomena can be identified. At the same time, however, it is important to take into account the relationships among the scales of analysis chosen for a specific exercise. This is essentially the basis for our current explorations into the geography of CICs as a genre of social enterprise which we are able to carry out because of the availability, for the first time, of relevant and reliable data. Having established the basic geographies in relation to the pace of CIC growth and dissolution the research is moving forward in collaboration with Dr Helen Haugh of the Judge School of Business at the University of Cambridge who will be using social survey methods to reveal the external circumstances and individual motivations for setting up and maintaining this new and important form of social enterprise.



Key Statistics

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	484	7	1333	4905
April 11 - March 12	2087	590	11	1486	6391
April 12 - March 13	2055	766	10	1279	7670
Total	10041	2333	38	1279	7670

Table 10. Total Number of CICs on the Public Register by CLG and CLS

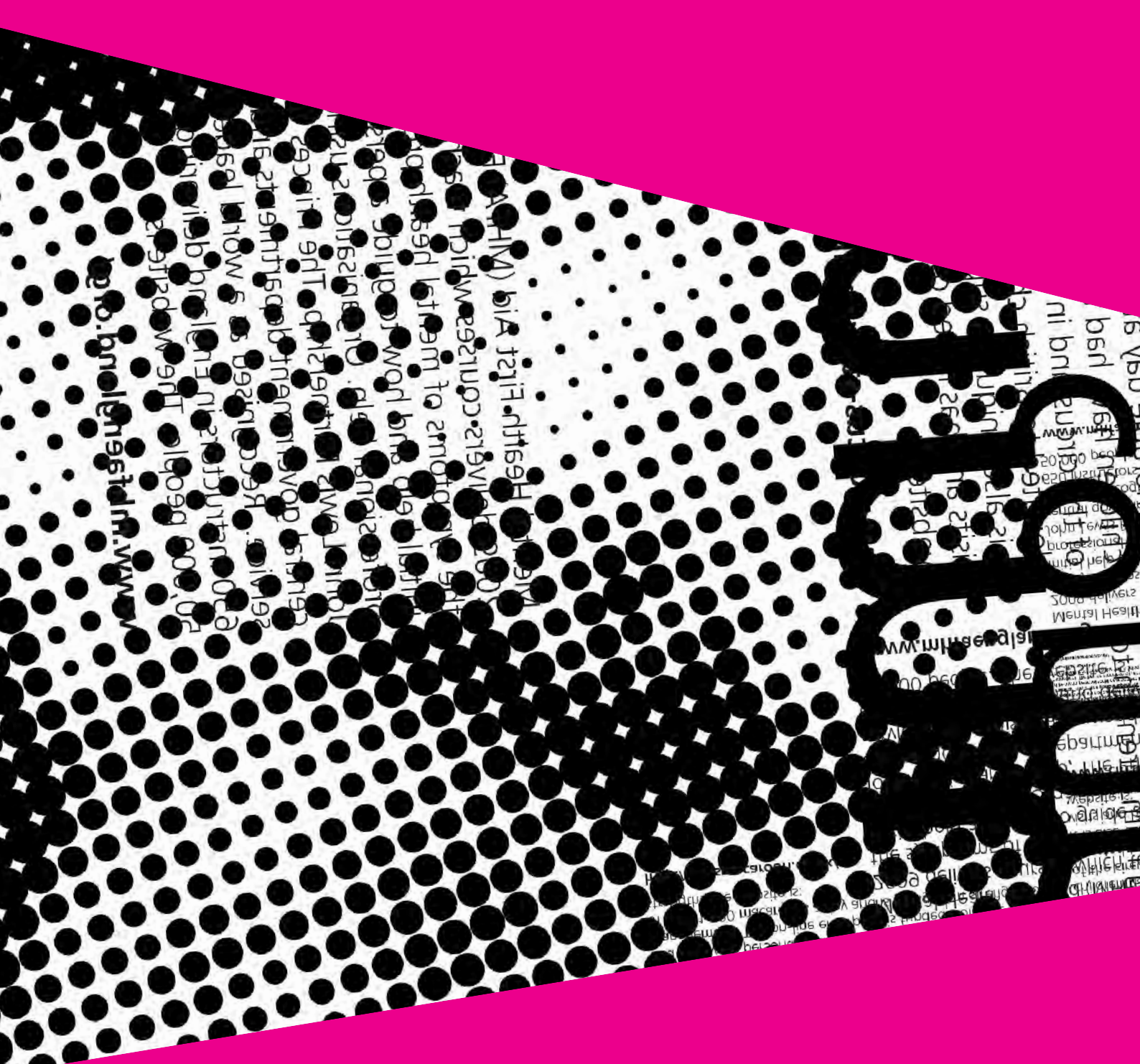
	Mar-12	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Total
CLG	4896	88	89	47	119	51	84	83	107	65	56	135	88	5908
CLS	1495	14	39	19	25	11	22	20	35	27	15	13	27	1762
	6391	102	128	66	144	62	106	103	142	92	71	148	115	7670

CICs by region

	Number	%
East Midland	436	6
East of England	630	8
London	1178	15
North East	476	7
North West	1081	14
South East	1002	13
South West	931	12
West Midlands	830	11
Yorkshire and Humber	442	6
Total England	7006	92
Northern Ireland	109	1
Scotland	335	4
Wales	220	3
Total	7670	100

Key facts:

- 7670 CICs on the public register
- 2,055 applications this year
- CIC register increased by 20%
- 766 CICs dissolved
- 10% the percentage of dissolutions
- 39 CICs have converted to charities
- 77% the number of CICs that have adopted the limited by guarantee model
- 6 – the number of CIC Staff
- 6,669 telephone calls
- 2,873 emails
- 97% of all applications processed within 72 hours of receipt in CIC Office
- £60k savings on spend compared to 2 years ago
- £10k savings on spend compared to last year
- 34% - percentage of receipts compared to spend



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