DRAWN TO THE VALLEY- AGM NOVEMBER 2020

ORGANISATIONAL/COMPANY STRUCTURE ANALYSIS

The following analysis and the advice in the Benefits and Risks based on my assumption that in DttV we wish to follow the principals as set out below:

- All memberships are equal
- Directors or People of Significant Control (PSC) in the company are not paid for their services on the Committee/Board/ Trust
- All Members have a shared interest in the organisation – one member = one vote
- All Members want to avoid personal liability for the organisation – financial and in law
- The organisation wishes to remain not for profit and only have surpluses held as contingency or collective reinvestment
- There are no shareholder members who will take dividends or income from the organisation
- It gives the freedom to apply for funds from grant bodies if required
- Members as individuals do not have any personal vested interest in the activities undertaken
- Limited liability for the members and organisation
- Minimal regulatory requirement

SUMMARY OF MODELS:

A number of models were investigated looking at the benefits and disadvantages of each possible organisational structure available. Initially these included – Unincorporated Association (DttV now) Trust, Community Interest Company (CIC), Partnership, Co-operative, Community Benefit Society, Company Limited by Shares and by Guarantee, and Charitable Incorporated Organisation (for small groups).

The Committee wanted to see further information on 3 models – there is a summary and detailed analysis of each of these below.

Unincorporated / Community Interest Company (CIC)/Charitable Incorporated Organisation (CIO)

SUMMARY OF SECTIONS	UNINCORPORATED	CIC	CIO – SMALL CHARITY – DESIGNED FOR CLUBS/VOLUNTARY ASSOCIATIONS
Ownership model	Owned by all members Managed by committee but with no legal status – only need a constitution laying out objects Usually has three officers Chair, Treasurer and Secretary All members are liable for actions/debts etc of an unincorporated organisation	Directors are appointed manage the organisation – with significant members identified as stakeholders. Usually the officers appointed are Chair plus one other as minimum. Must meet community benefit test to be allowed to operate in this model. Recommended to be Ltd by guarantee. Directors are liable not the wider organisation	Trustees elected by membership to run organisation on behalf of all members – in the association model. Restricted term for trustees (Max 9 Years) and they have to sign legal declaration. Must represent the membership/beneficiaries. A trust structure might be the best option for smaller organisations and grant-making charities, with no staff, premises or substantial contracts.
Membership	Members are those paying subscriptions or have signed up to join if no fees are applicable. All members are liable in law for the actions of organisation equally	Members are all stakeholders and have to be consulted on certain matters. Controlling officer group (Directors) have legal requirements. Some consider customers as further stakeholders but Directors are responsible for their actions	Trustees –are elected as a managing committee Members vote on some elements including trustees appointments. Need to manage conflict of interest and make sure it is fair to all.
Documentation	Must have robust constitution and due to liabilities good insurance for Committee and protection for members	Fixed Articles of Association, CIC regulator requires reports annually, Light touch model. Difficult to change Articles as this is linked to the community benefit statement which is key to being a CIC. Ltd company is recommended for CIC's to limit liability	Light touch charity commission model design for small charities like sports clubs. Managed by Constitution/Articles of Association. Annual accounts return to charity commission and report on benefit to community

SUMMARY OF SECTIONS	UNINCORPORATED	CIC	CIO – SMALL CHARITY – DESIGNED FOR CLUBS/VOLUNTARY ASSOCIATIONS
Income	Any earned income could be subject to corporation tax	Not for profit model, can have reserve but should reinvest in business otherwise taxed as a normal corporation	CIO's are allowed to make commercial income as long as this is in their objects and benefits the charity. Can trade but profit is limited to turnover levels. Can apply to wide range of funders – more than any other model. Gift aid options apply.
Flexibility of model	Fairly flexible – no rules as such. Can apply for some grant aid from national funding bodies such as Arts Council – no other aid applies	Can have CIO arm Can apply for trust funding Subject to 'Asset Lock' – usually relating to property ownership	Cannot be changed to another model Very flexible otherwise – can apply to a wide range of funders
Tax liability	All surpluses could be subject to tax – reserves are allowed	Profits are subject to corporation tax as other companies if not reinvesting in the organisation or the beneficiaries	Trading income has limits on turnover – then corporation tax applies – DttV do not reach this level by a long way (Under turnover £32k = max commercial trading income £8k) No tax on non-trading – fees Gift Aid allowed from tax payers
Regulation levels	None –not legal identity – requires constitution in most cases	Managed in accordance with Articles of Association. Must meet community test when setting up a CIC – to show community benefit Light touch regulator	Light touch regulation as directed by Charities Committee. Annual reports required showing charitable aims. Random checks by commission may apply.
Liability of members	All members are liable and officers are particularly exposed so good insurance is recommended	Ltd Company is advised as members will be liable otherwise – can be Ltd to £1 per member Directors need liability	The CIO model protects trustees and members. Exposure on wilful fraud on individuals. Fewer rights to operate. Cannot remove trustees during term. Legal requirement to file annual

SUMMARY OF SECTIONS	**UNINCORPORATED**	**CIC**	**CIO – SMALL CHARITY – DESIGNED FOR CLUBS/VOLUNTARY ASSOCIATIONS**
		insurance Directors responsible for submissions to regulator – fines may apply	accounts
Potential start-up costs	None	£35	£40
Ongoing costs	Insurance to protect some liability	£55 p.a. on reporting	Accounts have to be formally audited in full – account sign off costs
Key risks	Limited access to funds Liability of members Limited trading options – Tax	Must engage with membership regularly Reporting requires qualitative data on real community benefit Directors liability	Lack of control outside commission guidelines Requirements from the commission – member votes etc Trustees have a fixed term

DETAILED ANALYSIS OF BUSINESS MODELS

COMPANY STRAUCTURE	DESCRIPTION	BENEFITS	RISKS
UNINCORPORATED ASSOCIATION (Current DTTV status)	An unincorporated association is an organisation that arises when two or more people come together for a particular purpose, but decide not to use a formal structure like a company. Most clubs, societies, groups, and some syndicates are unincorporated, as are most voluntary organisations.	To set up an unincorporated association, all you need to do is write and agree a constitution in your group. If you do not plan to become a charity, your constitution should lay out whatever aims you want for your group.	Individual members are personally responsible for any debts and contractual obligations for unincorporated organisations. If the association does start trading and makes a profit, you'll need to

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		You don’t need to register an unincorporated association, and it doesn’t cost anything to set one up. Some grant funding can be sort as an unincorporated group if your constitution fits with their requirements.	pay Corporation Tax and file a Company Tax Return in the same way as a limited company. You are able to have reserves carried over for future years as long as this is in the objects. Most Trust funds require you to be a charity or CIC to apply and be eligible for grants.
	Ownership Structure	No single member has ownership of the organisation as it has no legal status. A constitution is usually required. It is usual to appoint officers for example Chair, Secretary and Treasurer and a committee to represent the organisation. It is usual for these to be elected periodically as specified in the Constitution. There is no Act of Parliament defining or specifically governing these associations, but there is a large amount of case law.	If there is any trading all members are liable for any losses. It is recommended that insurance is sought to limit liability of members. There is case law showing that officers of committees that enter into contracts with third parties can be litigated against and have been found liable. There is no implied right for members of the governing body to be indemnified by the members. If any member of the governing body signs a contract on behalf of the association they can be held personally liable. If the governing document requires members to contribute to any liability, then the members of the governing body will be able to claim against them rather than pay the liability personally.

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	Documentation Required	Constitution that is robust as all members are liable for actions of the organisation. Processes and procedure should be developed to protect member and committee member's liability. Any unincorporated association's rules should cover: • The name of the association; • The association's object and purposes; • Election and admission of members; • Payment of subscriptions; • Resignation of members; • Suspension and expulsion of members; • Composition of the managing committee; • Management of the association's affairs; • Finance and property; • General meetings; • Alteration of rules; • Dissolution of the association; and • Power of specific officers	Documentation for unincorporated groups have to be carefully prepared as there is no unlimited liability.

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		to bind members.	
	Membership	You can have as many or as few members as you like. Need to keep sensitive data secure on member's information. DttV are liable under data protection legislation Members with officer responsibility need to understand their roles and liability. Where an unincorporated association has subscription rules, a member cannot acquire rights until he/she has paid that subscription. As in the formation of a contract, the association offers membership and the would-be member accepts that offer by agreeing to pay the subscription. Only when the subscription is paid does the contract come into existence.	All members are deemed liable in law for the organisation. The organisation and membership is governed by the Constitution/Rules - All members have the right to insist that the rules are complied with, just as a party to a contract is entitled to enforce its terms. There is no implied power to alter the rules of an unincorporated association, so in the absence of an express power of amendment, it is not possible for members to force through a change by a majority vote at a general meeting. Where an association has more than 25 members, it is unlawful to discriminate on grounds of race, sex or sexual orientation etc
	Income streams	Income can be made in line with the Constitution. Many unincorporated associatio ns, particularly those concerned with community/arts projects, will receive funding from local government or grants from organisations such as the Arts	Taxation will apply on profits made through trading like any other company As unincorporated associations hav e no separate legal identity, they cannot enter into a contract to provide services in return for funding. The contract has to be

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		Council or the Big Lottery Fund. In such cases, those offering the funds often expect a degree of control over how the funds are spent by the unincorporated association, and grants are often made conditional on certain criteria being fulfilled. This control is usually documented in a funding agreement that may provide for a claw-back of funds if certain conditions are not met or certain standards are not complied with. For example, the Arts Council has published standard conditions for grants. An unincorporated association may receive gifts of money, equipment or land. If the gift is of cash, it can be made to the association as an addition to its funds.	made with individual officers of the association (and should be carefully drafted to limit the personal liability of these individuals). From the point of view of the third party contractor, liability for breach of contract is problematic when dealing with an unincorporated association, and problems of personal liability under contracts lead to many unincorporated associations to adopt corporate status either as a company limited by guarantee or charity.
	Flexibility	It can apply for some funding such as through lottery distributors like the Arts Council. It is a very flexible model as it has no legal standing however it makes the individuals involved personally liable. It can turn into a CIC or CIO from the current unincorporated	It is flexible but without liability risks for individual members.

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		structure.	
	Taxation	There are two conditions that a charity or voluntary organisation must satisfy for tax exemption to apply to trade profits arising from the holding of a fund-raising event for charity: the event must be of a kind that falls within the exemption from VAT under Group 12 of Sch 9 Value Added Tax Act 1994; and the profits must be transferred to a charity or otherwise applied for charitable purposes.	If any profit is made this will be subject to corporation tax whether incorporated or not.
	Regulation	There is no formal regulation for unincorporated group – rules are to be included in the Constitution	With no regulation come no protection or limited in liability.
	Liability	Need to make sure the constitution and governance documents protect members and committee members appropriately. Need to ensure appropriate insurance is in place. Get good and appropriate advice from a professional – accountant/solicitor.	The consequence of an unincorporated association not being able to contract / or own land is that such transactions will be in the name of committee members personally, potentially leaving them open to personal liability in respect of these contracts. Example – credit card system – Stripe. This has to remain in the name of an individual as there is no corporate name in law. In addition, they may find themselves facing other liabilities,

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			including: 1. They may be targeted by creditors for any of the club's/organisation's debts (such a claim could be on a shotgun approach (a claim against all of the committee members etc.) or a more targeted approach (a claim against one or a few committee members)). 2. They may be subject to claims from employees/freelancers in the event of a breach of a contract. 3. They could be held liable in the event of the wrongful action of a member. 4. Incoming committee members need to be aware that they may be held liable for historical liabilities that they have nothing to do with. If the contract is made with an agent on behalf of the association, the principal cannot be the association itself as it does not have legal personality; rather, the principal will be whoever authorised the individual(s) to enter into the contract. If the authority to contract came from the rules of the association, then all the members will be co-principals. If the authority was given by the management committee, then the management committee members will be liable. It

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			could be argued that the members of the association implied give its officers authority to enter into contracts on their behalf because they have signed up to the rules (Powers). Bearing this in mind, it is important that association rules set out very clearly what power the Chair, secretary, treasurer or other officers have to bind the members
	Potential Cost	No specific costs other than liability insurance to protect members personally.	Liability insurance
COMMUNITY INTEREST COMPANY (Ltd by Guarantee) not shares	A community interest company is a business with primary social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners. Community interest companies (CICs) were introduced to provide a legal structure to encourage people to establish ventures that provide genuine benefits for their local communities, rather than being driven by personal profit. The dividend that may be paid to shareholders is capped at a rate set by the CIC Regulator. CICs are eligible for the same tax	CICs provide an additional type of legal status for businesses with social objectives. The ability to incorporate using the traditional process for limited companies provides limited liability and increased flexibility. CICs are expected to reinvest their surpluses to do more of their work but can also pay a proportion of this out to the owners or investors. Social enterprises, Charitable Incorporated Organisations (CIO) and Community Interest Companies (CIC) are eligible as long as they are not-for-profit or any profit is reinvested in the organisation.	Unlike a charity, a CIC is not entitled to any specific corporation tax exemptions. Accordingly, a CIC's profits are fully taxable unless it can be shown that the terms of the contract are such that, in tax law, the organisation does not amount to a taxable trade. Community interest companies (CICs) do not receive tax breaks from the Inland Revenue because of their legal status. Directors may be paid for their services to a CIC. CIC directors' remuneration should never be more than is reasonable. The Regulator – or the members of a CIC – may take

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	reliefs available to other companies. They are subject to corporation tax and VAT. Community interest companies (CICs) report annually to the Regulator on how they continue to deliver benefit to their community and how they are involving their stakeholders in their activities. In the same way as a private company or a charity, each community interest company (CIC) is controlled by those individuals who are appointed to its board and by those who become shareholders or members. The precise structure that is put in place is a matter for each CIC to determine.	This should be clearly stated within the organisation's governing documents. The CIC legal form was designed to provide a purpose-built legal framework and a “brand” identity for social enterprises that want to adopt the limited company form. Stakeholders (our members) in CICs will still have the assurance of community benefit provided by the ‘asset lock’ and transparency about their activities ability through the annual community interest report. An “Asset lock” is a legal clause that stops the assets (including any profits or other surpluses generated by its activities) of a CIC being used for private gain rather than the stated purposes of the CIC. Like other social enterprises, community interest companies (CICs) find funds from a variety of sources, including: • grants and donations • loans from high street banks and • other institutions. As a matter of best practice	action if a CIC director's remuneration appears to be too high. The asset lock is a fundamental feature of CICs. It is important that you understand the concept before setting up a CIC as it is permanent and cannot be removed. The Board are responsible and liable for any losses and all taxable revenue and need to be limited by guarantee to ensure the safety of individual members and the Board.

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		community interest companies (CIC) are encouraged to involve their stakeholders (members and customers in some cases) and required to report to the Regulator on how they have done so. CICs are more lightly regulated than charities but do not have the benefit of charitable status, even if their activities are entirely charitable in nature. If required: Dividends to shareholders - The amount of the maximum aggregate dividend will vary from year to year in line with the distributable profits available. For example, it could be 10%, 15% or 25% of the community interest company's (CICs) distributable profit available. It is just you are not allowed to pay more than 35% of the CIC's distributable profits.	
	OWNERSHIP STRUCTURE Requires: a minimum of one member a minimum of one director, but a	A Community Interest Company must be set up and run for the benefit of the community. The Board/Committee have the responsibility to run the company on behalf of the	Regulator decides if the proposed organisation can be registered as a CIC. Time should be taken with setting out the objects and proposed activities of the company. Once delivered and registered, the form

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	public limited company must have two	stakeholders. It must have two directors/members but most have three as a minimum A CIC as seen as a company with social credentials can apply for grant and in some cases from Trust Funds CICs can have a charitable subsidiary like a CIO A CIC can only be registered with the consent of the Community Interest Companies Regulator. You set up a limited company first then request from the CIC regulator The proposed company will become a CIC as soon as the Registrar issues a certificate of incorporation. Setting up a company brings many obligations. Before proceeding you are recommended to take professional legal, or accountancy, advice on whether	CIC36 cannot be changed unless the company changes its objects. Therefore, the community benefit test has been renewed with the regulator. A company will be disqualified from satisfying the community interest test if it engages in activities that a reasonable person might consider to benefit its members or employees without contributing towards any wider community benefit. A company which is established primarily to benefit its members or employees rather than external stakeholders, will have to show that it will deliver some wider benefit if it is to be eligible for CIC status.

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		a limited company, in the form of a community interest company (CIC), is the best way to run your enterprise. Like any other company, CICs have: -members of a company who are the subscribers to the company's memorandum (who are deemed to have agreed to become members) and all other persons who have agreed to become members of the company. A private company is not required to have a company secretary.	
	DOCUMENTATION REQUIRED The Community Interest Statement should be drafted taking into consideration the purposes for which the company is set up, the range of activities which it will undertake in order to promote these purposes, and the sections of the community which the CIC is intended to benefit.	The CIC does need to justify its status by declaring how it will be of benefit to the community. This is done through the submission of form CIC36, which contains the initial Community Interest Statement and is used to express the purposes of the company to the Regulator. As in the case of other companies with charitable purposes, an objects clause should also be	Electronic delivery of documents to form as a CIC is not available at present. Community Interest Company Report, which must be submitted on an annual basis. To add to the extra hassle of completing this form is the fact it can only currently be completed and submitted on paper rather than electronically. More generally, the CIC Regulator

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	Required: Memorandum of Association • A printed copy of the Articles of Association that complies with the requirements of section 18 of the Companies Act 2006 and related CIC legislation. • Form IN01 requires details of the CICs proposed name; whether limited by guarantee public or private; the first directors (and secretary if applicable), the situation of registered office; a statement of compliance etc. • Form CIC36 which is the community interest statement. The purpose of the form CIC36 is to confirm that the CIC will provide benefit to the community. It does this by describing its intended activities who they will help and how. • A cheque for £35 made payable to “Companies House” The information given on the form CIC36 enables the Regulator to decide the company’s eligibility for CIC status. **Annual Report:** The Regulations prescribe minimum requirements. These include: •	included in the Articles of Association. In addition to the initial Community Interest Statement, every CIC must file an annual Community Interest Report alongside its accounts. This is filed at Companies House and copied to the CIC Regulator, and as its name suggests, should assert what the CIC has done to benefit the community during the year. It also includes details concerning directors’ remuneration (if applicable), and interest paid on any capped loans. All the directors of a Community Interest Company (CIC) have an obligation to prepare an annual community interest company report to be filed with their accounts. The purpose of the report is to show that the CIC is still satisfying the Community Interest Test, and that it is engaging appropriately with its stakeholders in carrying out activities that benefit the community. The accounting period for a	has the power to investigate and potentially take action against a CIC if there are concerns that it is not serving the specific community it was established to benefit or is otherwise in breach of CIC rules, principally the asset lock requirements. It is very difficult to change either Articles of Association and Memorandum of Association once the objects have been agreed by the regulator. You need to get it right first time. If you have to change, then it is likely you have to go through the full test again on community benefit.

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	Information on the remuneration of the directors such as the total aggregate pay of directors, (This information does not have to be duplicated in the report if it is included in the accounts and the report states that the information may be found in the accounts) • Details of what the CIC has done to benefit the community • Details of how it has involved its stakeholders in its activities. • Information on the transfer of assets to another asset locked body or otherwise at less than market value for the benefit of the community if applicable.	company and time in which the accounts and CIC Report must be filed are determined by the company's accounting reference date.	
	MEMBERSHIP Made up of directors/members that are part of the CIC. Stakeholders have to be identified – could be members/or customers. The regulator like to see engagement with the stakeholders as part of the annual report to confirm community benefit.	It is expected that the community will usually be wider than just the members of the CIC. For example, the community of a CIC formed to run a community bus service would include the whole of the population of the area served not just those residents who had invested in the company. In further examples the community may be the beneficiary of surpluses or profits of trading activities which may not themselves be specifically community benefit	A company will not be eligible if any of its activities benefit only the members of a particular body or the employees of a particular employer, without bringing any benefits (directly or indirectly) to a wider community. If the community which your proposed CIC is primarily intended to serve is made up of members of a particular body or employees of a particular employer, you will need to think carefully about this and consider what wider community benefits the proposed CIC can be said to deliver.

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		activities. Such CICs could have purposes described in terms such as: • Trading to create a surplus to assist… • Contracting to provide services and using surpluses from this for the benefit of…	The involvement of stakeholders should therefore be integrated in the corporate governance of the CIC. The extent of this will clearly vary according to the size, purpose, geographical extent etc of the CIC and the cost of stakeholder involvement needs to be proportionate to the scale of the operation. It will depend on whether we identify the DttV members as stakeholder or the wider community/customers in the valley.
	INCOME STREAMS Includes all earned income through membership fees and commissions, donations etc	Most CICs do not take profit from the company as this is set up for community benefit in most cases. Expenses are apportioned to income. Can have a reserve	If LTD by share rather than by guarantee: The maximum aggregate dividend limits the total dividend declared in terms of the profits available for distribution. Currently, the limit is 35% of the distributable profits. In the future - Directors can be paid based on the level of work they do for the company. The decision as to how much an individual director is paid is a matter for each community interest company (CIC) to decide itself The Regulator strongly advises any CIC which contemplates remunerating its directors to include express provision for such remuneration in its Articles of

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			Association and Memorandum of Association. Stakeholders can go to the Regulator if they consider dividend levels are inconsistent with a CIC’s community benefit aims. Any surpluses in excess of contingency will be subject to corporate tax – this is currently 19% of any profit.
	FLEXIBILITY Considering: Flexibility of the organisation to grow, access to grant funding, changing to other organisation like charity or to set up addition charity company.	Charities cannot be both a CIC and a charity (though a charity could set up by a CIC as a subsidiary organisation). An existing organisation, who is not a limited company. If they wish to be a CIC, they must become a company first. In many cases a more practical course may be to form a new CIC to which the existing organisation can transfer its assets and liabilities. Can set up a charitable arm - A CIC that donates its surpluses to a charity will be able to deduct the amount of any such donations as a ‘charge’ when working out its profits for corporation tax purposes. This	Once registered, a CIC cannot be converted into an ordinary company, with limited other options available if the CIC vehicle proves unsuitable or circumstances change. A CIC can only be dissolved altogether, with the assets transferred to a similar vehicle under the ‘Asset Lock’, or be converted into a charity (which itself is subject to more onerous charity law and regulation).

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		may be of particular interest to those CICs which are set up as 'trading arms' of charities.	
	TAXATION CIC's are taxed as a normal Ltd Company on profits not distributed to the community Corporation Tax – 19% of profits currently	Deductions for tax can often be made against capital expenses and against some of the costs of running a business, such as training, running costs etc. In some circumstances local government may provide discretionary rate relief to social enterprises on properties linked to the business. A CIC's profits are fully taxable unless it can be shown that the terms of the contract are such that, in tax law, the organisation does not amount to a taxable trade. This would include grant aid as this is not subject to tax. Under company legislation, a company that qualifies as small may be exempt from formal audit annually. This would be suitable for DttV.	Community Interest Companies (CICs) will not receive tax breaks from the Inland Revenue by virtue of their legal status. The payment of corporation tax is the responsibility of individual companies, and appropriate professional advice should be sought when considering what your business's tax liabilities are, and how it might be structured in a more tax-efficient way. It should also be noted that a CIC cannot apply to Inland Revenue for Gift Aid status. If the income of the CIC exceeds £85,000 per annum, then VAT registration will apply.
	REGULATION Most notably, CICs are not subject to the more onerous regulations and limitations which apply to charities. In particular, they can be trading enterprises benefiting from	All CICs are subject to a number of important legislative provisions, many of which are set out in the Regulations. In particular, they must submit a Community Interest Statement and an annual Community	Any assets and profits (aside from those distributed in accordance with the rules on dividend capping) must be retained within the CIC and used solely for community benefit. The only bodies to which assets are allowed to be transferred are other

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	the advantages of limited liability. This provides relative freedom for the day-to-day running of the CIC, provided that the relevant caps and regulations are adhered to. Supervision by an independent, “light touch” Regulator who is committed to providing a high level of service to CICs and applicants for CIC status. CIC Community Test: The Regulations state that any group of individuals may constitute a community if they share a common characteristic which distinguishes them from other members of the community and a reasonable person might consider that they constitute a section of the community. This includes arts communities.	Interest Report, and must also be subject to an “asset lock” – a provision written into the CIC’s articles of association which acts as a means of making sure that any assets are retained by the CIC and not transferred away from it. As a limited company, a CIC must also comply with the requirements of company law in general, and accordingly must file annual accounts and returns at Companies House in addition to its responsibilities to the Regulator. Accordingly, a CIC must be registered both with Companies House and the CIC Regulator. A CIC can be any type of company – even a PLC – although in practice, most are companies limited by guarantee. As well as presiding over the registration process, the CIC Regulator has a continuing monitoring and enforcement role. It is not necessary that each activity carried on by the CIC must in itself be directly beneficial to the community, But it is important that	“asset-locked bodies” – i.e. those organisations which already have an asset lock. This means that assets may be transferred to charities, or to other CICs. The asset lock must be referred to explicitly as a provision in the CIC’s articles of association. When the Regulator considers whether a company will satisfy the community test, he/she is taking a view about the likely course of its future activities, and what reasonable people might think of them. Once a CIC has been registered, it must continue to satisfy the test for as long as it remains a CIC. The Regulator may take enforcement action against a CIC if he/she forms the view that it no longer satisfies the test

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		everything that a CIC does should in some sense benefit the community indirectly.	
	LIABILITY This means that the CIC will be liable for the actions of its directors but directors will not incur personal liability, except in certain exceptional circumstances (such as where the director has acted fraudulently, or continued to trade when the CIC has become insolvent).	There is no personal liability in regard to the CIC business unless it is due to unlawful practice.	The directors (and in some circumstances the secretary) are also responsible for ensuring that the company meets its statutory and other obligations under the various company Acts. In some cases the company can hold the directors personally responsible for defaults and they can be prosecuted, fined or subject to disqualification proceedings for being a director in the future.
	POTENTIAL COSTS Costs : £35 to register/start up plus ongoing £55 per annum	Annual charge of £55 for submitting reports etc. charged by Companies House	
CHARITABLE INCORPORATED ORGANISATION (CIO)	A CIO is a charity that is just regulated by Charity Commission, rather than most charities that are set up as charitable companies which are regulated by Charity Commission and Companies House A CIO is a type of charity which is incorporated. It is quite a new legal structure – it was introduced in 2013.	CIOs are charities so they benefit from tax breaks that CICs don't get. You'll pay no tax on income providing its related to your charitable objects (purpose) or below the limit for non-charitable income. You can also claim Gift Aid on any donations – meaning they are worth 25% more than the amount that's donated. The charity would be eligible to apply to a lot more trusts and	Charity Commission isn't as light touch as the CIC Regulator and the reporting requirements are more onerous, as well as the need to have an active Board of trustees in place. The threshold for requiring an independent examination and an audit is much lower for CIOs than charities, so it's likely to be more costly to get your accounts completed.

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	There are two types of CIO: Association Model and Foundation Model. Association Model CIOs are membership organisations and hold elections, whereas Foundation Model CIOs are run by a small group of appointed trustees. CIOs must be registered with and report to the Charity Commission, regardless of their income. Unlike charitable companies, however, they do not need to register with Companies House. This means the reporting requirements are simpler for CIOs than for charitable companies. Registration of a new CIO takes up to 40 days. You will need to use a model constitution approved by the Charity Commission, and apply online via their website to register the organisation.	foundations that only give grants to registered charities. From a VAT perspective, certain activities delivered via a charity qualify for concessions, and charities don't pay stamp duty land tax when purchasing properties or leases. Social enterprises, Charitable Incorporated Organisations (CIO) and Community Interest Companies (CIC) are eligible as long as they are not-for-profit or any profit is reinvested in the organisation. This should be clearly stated within the organisation's governing documents. A charity may set up a CIC subsidiary company. For example, a charity could set-up a CIC subsidiary company to run a charity shop and pass some or all of the profits to the charity that owns it. Trustees cannot be paid for undertaking their trustee role – it must be for additional services only if applicable.	
	Ownership	Charity commission have produced two model	A CIO's constitution must be in the form to be specified by Commission

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	This will depend on the type of CIO it is – see benefits column Association model might best fit DttV	constitutions for CIOs: • the 'foundation' model is for charities who's only voting members will be the charity trustees • the 'association' model (this model) is for charities that will have a wider membership, including voting members other than the charity trustees In practice a CIO using the 'foundation' model will be like an incorporated charitable trust, run by a small group of people (the charity trustees) who make all key decisions. Charity trustees may be appointed for an unlimited time and they will probably appoint new charity trustees. A CIO using the 'association' model will have a wider voting membership who must make certain decisions (such as amending the constitution), will usually appoint some or all of the charity trustees (who will serve for fixed terms), and may be involved in the work of the CIO.	regulations (or as near to that form as the circumstances allow). These regulations will specify that the constitution should be in the form of one of the commissions model constitutions. A CIO's constitution must include certain provisions to comply with the Charities Act 2011 (the 2011 Act) and the General Regulations. However, the 2011 Act and General Regulations do not prescribe an exact wording. CIO is not, however, an appropriate structure for all charities. An unincorporated association might be preferable if a charity does not require a corporate structure, for example if it has few assets and business dealings but still has a large membership. A trust structure might be the best option for smaller organisations and grant-making charities, with no staff, premises or substantial contracts.

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	Documentation Required Documentation for CIOs are light touch in comparison to other registered charity models. This is a more onerous reporting model compared to CICs.	Governed by a CIO Constitution which has to be close to the model given by the charities commission. You must keep a register of members and trustees – must be correct at all times. You must send the CIO accounts and annual return to the commission each year, regardless of its income. Many charities' governing documents allow or require: • some or all of the trustees to be elected by the members (this is usual practice for charities with voting members other than the trustees) • the trustee body to include beneficiaries • other groups or organisations, such as local authorities, to appoint trustees It's important to listen to the views and perspectives of members, beneficiaries and other bodies with an interest in	Documentation tends to replicate corporations in many cases with the constitution in the form of Articles of Association and can seem complex initially.

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		your charity. Having people as trustees is one way of obtaining these views. But all trustees, regardless of how they are appointed, must act solely in the interests of the charity; it's not their role to act on behalf of any particular group. They must also manage conflicts of interest, including conflicts of loyalty to their appointing body.	
	Membership Elected Trustees what we consider as the committee have responsibilities to the wider membership if the association model is adopted	A charity with a wider membership may carry out its work wholly or partly through the voluntary effort and contributions of its members. Having people your charity helps as members can help you take account of their views. If you set up a charity with a wider membership, it mustn't be set up only for the benefit of your members unless: • a sufficient section of the public can access those benefits by becoming members – for example, anyone can join • the membership structure is a suitable way of carrying out	Trustees can be reappointed for three terms of three years but then cannot be reappointed for the following three years under the recommended constitutional model by the charity commission. Trustees must make sure that everything the charity does helps (or is intended to help) to achieve the purposes for which it is set up, and no other purpose. This means you should: • ensure you understand the charity's purposes as set out in its governing document • plan what your charity will do,

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		your charity’s purposes for the public benefit – for example, members of an amateur sport club Trustees have independent control over, and legal responsibility for, a charity’s management and administration. They play a very important role, almost always unpaid, in a sector that contributes significantly to the character and wellbeing of the country. When charities recruit new trustees, they should think about: • the skills and experience the current trustees have, and whether there are any gaps • ensuring new trustees are eligible to act • ensuring new trustees do not have serious conflicts of interest, or getting Commission consent and putting procedures in place to manage the conflicts • how to help new trustees to understand their responsibilities and the	and what you want it to achieve • be able to explain how all of the charity’s activities are intended to further or support its purposes • understand how the charity benefits the public by carrying out its purposes Spending charity funds on the wrong purposes is a very serious matter; in some cases, trustees may have to reimburse the charity personally. The full name of every trustee will be on the public register.

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		charity's work Each trustee must read and sign the trustee declaration form to confirm they can act as a trustee of the organisation named on the declaration form. The commission cannot accept electronic signatures.	
	Income Stream Includes all earned income through membership fees and commissions, donations etc	Can apply for funding from most trusts as well as lottery funders. Charities can also more easily raise funds by public appeal as they are seen as worthy and official. Can claim Gift Aid on taxable fees and donations	Trading income is restricted to turnover see – Taxation. Any additional trading income will be subject to Corporation Tax at 19%.
	Flexibility Considering: Flexibility of the organisation to grow, access to grant funding, changing to other organisation like charity or to set up addition charity company.	This model is very flexible other than changing to another vehicle. Access to funding and gift aid options with this model	If you wish to change the charitable status of an organisation. It must be wound up as it cannot be transferred. Any new organisation has to set up and can not be subject to asset transfers from a CIO.
	Taxation Charities get tax exemptions including gift aid on sales	CIOs are charities so they benefit from tax breaks that CICs don't get. You'll pay no tax on income providing its	When your charity's trading does not relate to your charity's primary purpose, it may still be exempt from tax if the turnover is below the

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	Trading Limits have to be adhered to otherwise trading income can be subject to taxation. Surpluses can be held if this is stated in the objects of the organisation	related to your charitable objects (purpose) or below the limit for non-charitable income. You can also claim Gift Aid on any donations – meaning they are worth 25% more than the amount that's donated or given. Your charity will not pay tax on profits it makes from trade if: • you are making money to help your charity's aims and objectives, known as 'primary purpose trading' • your level of trade that is not primary purpose falls below the charity's small trading tax exemption limit Trading income Limits: Under turnover £32k = max trading income £8k £32k - £320k = 25% of total turnover You may have expenses that pay for administrators and staff for all of the profits to be exempt from tax, the beneficiaries (artists and volunteers) must do most of the	small trading tax exemption. If your charity's small trading turnover is higher than the exemption limits then you'll have to pay tax on all of your profits from that trade.

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		work.	
	Regulation Lighter touch than other registered charity models Trustees are required to produce proper annual reports and ensure the business of the charity is run properly That the activities of the charity run to meet the social benefit and the objects when it was established	If your charity is registered, your trustees' annual report must explain how you have carried out its purpose for the public benefit. A detailed report is only required if your charity's gross income exceeds £500,000; otherwise a brief summary is all that's needed. You must also state whether you and the other trustees had due regard to the commission's public benefit guidance when exercising any powers or duties to which the guidance is relevant. The commission checks a random sample of trustees' annual reports for the quality of reporting, including about public benefit, and would consider persistent non-reporting of public benefit a potential regulatory issue. The Charity Commission expects trustees to take their responsibilities seriously. Using	Trustees who act in breach of their legal duties can be held responsible for consequences that flow from such a breach and for any loss the charity incurs as a result. When the Commission looks into cases of potential breach of trust or duty or other misconduct or mismanagement, it may take account of evidence that trustees have exposed the charity, its assets or its beneficiaries to harm or undue risk by not following good practice. To satisfy this aspect the purpose must: • benefit the public in general, or a sufficient section of the public - what is a 'sufficient section of the public' varies from purpose to purpose • not give rise to more than incidental personal benefit - personal benefit is 'incidental' where (having regard both to its nature and to its amount) it is a necessary result or by-product of carrying out the purpose

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		this guidance and ensuring you give sufficient time and attention to your charity’s business will help. The Commission recognises that most trustees are volunteers who sometimes make honest mistakes. Trustees are not expected to be perfect - they are expected to do their best to comply with their duties. Charity law generally protects trustees who have acted honestly and reasonably. Public Benefit – Advancement of Arts and Culture : The advancement of art covers a wide range of charitable activity including promoting various forms of art at a national/professional and local/amateur level, the provision of arts facilities and encouraging high standards of art. ‘Art’ includes abstract, conceptual and performance art and representational and figurative art. Charities concerned with the advancement of art, whether	In general, for a purpose to be a charitable purpose it must satisfy both the benefit and the public aspects. The organisation cannot be a charity if it has some purposes that are charitable and some that are not.

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		visual arts or the performing arts such as music, dance and theatre, need to satisfy a criterion of merit, details of which can be found in the commission's information sheet. Examples of the sorts of charities and charitable purposes falling within this description include: • art galleries, arts festivals and arts councils • charities that promote, or encourage high standards of, the arts of drama, ballet, music, singing, literature, sculpture, painting, cinema, mime, etc, eg theatres, cinemas and concert halls; choirs; orchestras; music, operatic and dramatic societies • the promotion of crafts and craftsmanship • Local art societies	
	Liability A CIO protects the trustees from direct liability on the actions of the organisation	The CIO is a separate legal entity and so it can enter contracts, hold property and employ staff in its own name. Consequently, any liabilities arising from the	Possible disadvantages of a CIO include that the members of a CIO have fewer rights than members in a charitable company; they will not be able to appoint a proxy that votes on their behalf at general

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	General members have less rights than other charitable models	entry into such arrangement fall on the organisation itself rather than the trustees. CIOs do not need to register with Companies House and are not subject to company law. They are solely registered with the Charity Commission and only regulated by charity law. This reduces up-front paperwork and on-going filing obligations leading to cost savings, and is advantageous to trustees with no previous knowledge of running a company.	meetings and they will not be able to remove trustees. Another disadvantage of a CIO is that few people outside the UK know anything about CIOs as they do not exist abroad and so are not commonly used where a charity is operating internationally.
	Potential Cost Cost of setting up and running the organisation	It cost £40 to register and there will be an ongoing cost which will include auditing the accounts annually so has to be factored in.	No real risks other than potential costs of reporting annually – but as a small organisation this is