

Appendix C- Choice of LACC company models

Key advantages and disadvantages of common LACC vehicles

| Company Limited by Shares | |
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| <u>Advantages</u> | <u>Disadvantages</u> |
| "Tried and tested" – a flexible and familiar structure which is still the most popular form of corporate JV vehicle. | Annual and event driven reporting to Companies House means a reasonably high degree of publicity regarding the company. |
| Simple mechanism for introduction of new equity/transfers, although transfers of shares subject to potential 0.5% stamp duty charge. The share capital structure means shareholders can hold different numbers of shares (or different classes) and therefore hold varying levels of influence. | Directors subject to statutory and common law duties, especially if the company is in or is near insolvency. |
| Nature of shares as an investment gives possibility of future "exit" as well as income return for shareholders, subject to there being sufficient profits available for the purpose of distribution. | Company treated as a separate taxable entity from its shareholders. |
| Can be used for LA trading. | Potential issues surrounding valuation of shares on exit. |

| Company Limited by Guarantees | |
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| <u>Advantages</u> | <u>Disadvantages</u> |
| Often used as a vehicle for embedding "social" values (e.g. social objects and no profit distributions to members), without the need to use a CIC, a Society or a charitable company. | Guarantee given by each member represents a future, albeit usual nominal, liability. |
| Membership easily changed by members being admitted or resigning from membership. No issues surrounding valuation on exit. | Annual and event driven reporting to Companies House means a reasonably high degree of publicity regarding the company. |
| Can be used for LA trading. | Directors subject to statutory and common law duties, especially if the company is or is near insolvency. |
| | Company treated as a separate taxable entity from its shareholders. |
| | Not as easy to distribute profits as with a CLS. CLGs are not appropriate if the |

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| | members are looking for a profitable "exit" in the future. |
| | Cannot issue shares as a means of raising finance. |

| Share Community Interest Company | |
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| <u>Advantages</u> | <u>Disadvantages</u> |
| Vehicle has automatically embedded "social" objects and requirement to use assets towards that social purpose. The creation of a CIC emphasises both its social character and local focus. | Alongside publicity requirements for a CLS, a Share CIC has additional publicity obligations towards the CIC Regulator. |
| Simple mechanism for introduction of new equity/transfers, although transfers of shares subject to potential 0.5% stamp duty charge. The share capital structure means shareholders can hold different numbers of shares (or different classes) and therefore hold varying levels of influence. | CIC Regulator has wide powers of inspection and intervention, albeit these would most likely be used in serious cases only. |
| CIC can raise finance through the issue of shares. | Returns to equity and debt investors are limited. Surplus assets on dissolution will not go to the shareholders of a Share CIC automatically (unlike the shareholders in a CLS). |
| Nature of shares as an investment gives possibility of future "exit" as well as income return for shareholders, subject to there being sufficient profits available for the purpose of distribution. | Directors subject to statutory and common law duties, especially if the company is or is near insolvency. |
| Can be used for LA trading | Company treated as a separate taxable entity from its shareholders. |

| Guarantee Community Interest Company | |
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| <u>Advantages</u> | <u>Disadvantages</u> |
| Vehicle has automatically embedded "social" objects and requirement to use assets towards that social purpose. The creation of a CIC emphasises both its social character and local focus. A Guarantee CIC is also "not for profit", given it cannot distribute profits to its members. | Alongside publicity requirements for a CLG, a Guarantee CIC has additional publicity obligations towards the CIC Regulator. |

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| Membership easily changed by members being admitted or resigning from membership. | CIC Regulator has wide powers of inspection and intervention, albeit these would most likely be used in serious cases only. |
| Can be used for LA trading. | No ability to distribute profits to members. |
| | Directors subject to statutory and common law duties, especially if the company is or is near insolvency. |
| | Company treated as a separate taxable entity from its members. |

Limited Liability Partnership

| <u>Advantages</u> | <u>Disadvantages</u> |
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| Not treated as a separate taxable person, so no "double tax" on profits generated, then distributed, to members. | Annual and event driven reporting to Companies House means a reasonably high degree of publicity regarding the LLP. |
| Flexible vehicle – no Companies Act directors, so no directors' duties (albeit these can be imposed by contract and underlying fiduciary duties probably exist for any LLP management) | Requirement for an LLP agreement to avoid default provisions under the Regulations applying. |
| | Requires a minimum of two members – a company can be incorporated with one. |
| | LLPs cannot be used by local authorities if undertaking trading or activities for a commercial purpose. |

Society

| <u>Advantages</u> | <u>Disadvantages</u> |
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| Lower level of annual and event driven reporting to the FCA than for companies, CIC and LLPs. | FCA-regulated, which is not as straightforward as dealing with Companies House |
| Vehicle has automatically embedded "social" objects and requirement to use assets towards that social purpose. A Society is also "not for profit", given it cannot distribute profits to its members | Requires a minimum of three members (or two if both members are themselves Societies). |
| Mechanism for introducing new members can be straightforward, through issue of new shares. | Shares do not represent an investment in the Society. Assets cannot be distributed to members, either as profit or on a winding up. |

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| | Less well-known/used, so less familiar structure than companies, CICs and LLPs. |
| | Society treated as a separate taxable entity from its members. |