

Fact Sheet – Community Interest Company (CIC)

This fact sheet is only meant as a general guide to CICs and cannot explain everything that you need to know. Neither the sponsors nor its staff can accept liability for any loss or issue arising as a result of reliance upon any information contained herein. Readers are strongly advised to obtain more specific advice according to their needs. Further information can be obtained via the websites and addresses on this fact sheet.

What is a Community Interest Company (CIC)?

It is a limited liability company with the specific aim of providing benefit to a community. The company is run by directors who have a duty towards the members of the company, customers and stakeholders and Companies House.

Who is 'the community' for the purposes of a CIC?

It could be:

- The residents of a town or district of a city
- People who have particular needs, such as elderly and/or disabled people, the young unemployed, people suffering from a particular illness or who want to learn certain skills to improve their employment opportunities
- Groups of people overseas who are in need, for example, small scale farmers in a developing country

Organisations which are not set up to benefit the wider community do not qualify so a family or group of friends or employees of a business or members of a particular club do not qualify as a CIC.

What sort of organisation can become a CIC?

Company limited by shares / Company limited by guarantee / Public limited company (plc) - The organisation must have objects (aims) and undertake activities for the benefit of the community (see above). CICs are designed to be businesses governed by company law and therefore must comply with company law. This means adhering to the same levels of corporate governance as any other company in the UK. A company can convert but must call a general meeting with at least 21 days notice, must be quorate and all resolutions to convert must be passed by at least a 75% majority of members present.

Note: CICs cannot be registered as a charity, or be a political party or organisation.

What if our organisation is already registered as a charity?

A registered charity can convert into a CIC if the Charity Commission gives its written permission and after its trustees/directors have taken independent financial advice. Once it has the Commission's consent, the charity must pass the appropriate special resolution and submit them to Companies House.

Why become a CIC, what are the benefits?

It is a limited liability company and can, like any other company, engage in any lawful trade, activity or enterprise. It is a business in a legal form tailor-made for social enterprises (that is with a social purpose).

Why become a CIC, what are the benefits (cont)?

CICs can pay directors, enter into contracts, sue or be sued. Any profits or surplus must be used to benefit the community rather than members or shareholders.

What else might we need to know?

To register as a CIC an organisation must adopt a model constitution (or memorandum and articles of association) containing features unique to CICs

- It must have 'Community Interest Company' or CIC at the end of its name
- It must have an **Asset Lock** in its Articles of Association. This means that the CIC's property or assets can only be distributed for less than market value or, if the company is dissolved, to another asset locked body, such as another CIC or charity, to be used for a similar community purpose. They cannot be disposed of except in this way.
- It must have a **Cap on Distribution** in its Articles which will set a limit on what percentage of income or profits it can pay out to investors as dividends or loan interest repayments.
- It is managed by its directors but with only limited powers given to members or shareholders. There will also be 'reasonable' limits on directors' salaries and benefits to make transparent its obligation to operate 'for the benefit of the community'
- A CIC has to file accounts and a community interest report annually which includes specific information to explain and justify its 'community benefit' work and show that it has involved its stakeholders in its operation. This is to demonstrate how the CIC continues to provide benefit to a community through its activities.
- Every company must have a Company Secretary by law but they do not have to be a member or director. It is a very important administrative role.

What documents do you need to register as a CIC?

□ Memorandum & Articles □ A Community Interest Statement □ A declaration that the company is not 'excluded' e.g. a political party □ Declaration of first directors and company secretary □ Application to register as a limited company.

It is important to get further information from the Office of the Regulator so as to conform with the model for becoming or converting to a CIC. **Note:** Small filing fees will be required when paperwork is submitted to Companies House. All applications for registration or conversion are first examined by the Regulator. There is an appeals procedure if you are unhappy with the decision made by the Regulator.

For further information about CICs contact:

Office of the Regulator Community Interest Companies, Room 3.68, Companies House, Crown Way, Cardiff CF14 3UZ - Voicemail: 029 2034 6228

- Email: cicregulator@companieshouse.gov.uk
- Website: www.cicregulator.gov.uk

Institute of Company Secretaries & Administrators www.icsa.org.uk

Role of Secretary www.businesslink.gov.uk

For further information about Enta please visit our website at www.entapeople.com or call 0121 200 1096

