



Department
for Business
Innovation & Skills

Office of the Regulator of
Community Interest Companies:
Leaflets

Frequently Asked Questions for
Funding Organisations

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What is a community interest company?

A community interest company (CIC) is a limited liability company incorporated under the Companies Act 2006 by the Registrar of Companies with the specific aim of providing benefit to a community. It must conform to company and insolvency law in the same way as other UK companies. In addition it is regulated under the Companies (Audit, Investigations and Community Enterprise) Act 2004 (“CAICE Act 2004”) and the CIC Regulations 2005 with an asset lock and benefit to an identified community.

The level of governance, the members rights and duties and the statutory filing requirements, all adhere to UK and European company law and guidelines, including rules on insolvency, accountancy, and governance, in the same way as any other UK company.

Listed CICs have to comply with the Combined Code on Corporate Governance, or any other codes (such as those issued by institutional investors).

Can a community interest company be limited by guarantee or by shares?

A CIC can be:

- a private company limited by guarantee;
- a private company limited by shares under schedule 2 (dividends may only be paid to asset-locked bodies, such as, a charity);
- a private company limited by shares under schedule 3 (dividends may be paid to non-asset-locked bodies, but the dividends are capped): or
- a public limited company.

Currently, 77% of community interest companies are private companies limited by guarantee.

What sectors do community interest companies operate in?

This legal form can be adopted by a range of social enterprises and 'not-for-profit' projects serving communities throughout the UK, which combine the pursuit of a social purpose with commercial activities.

Social enterprises can comprise of partnerships between local authorities, businesses and other stakeholders working for the community's benefit – for example, in operating day care centres, out of hours GP care, waste recycling, local transport or the provision of low-cost work units for start-up businesses.

What are the key features of a community interest company?

- The "CIC" brand is distinctive in describing a company working for the benefit of the community.
- It has the advantage of the "company" legal form, which is familiar and well understood by the business community and is flexible enough to adapt to most organisational structures, membership or governance from a single member company to a co-operative.
- It is quick, easy and inexpensive to set up because unlike a non-charitable company, the CIC has statutory clauses, which include an asset-lock. These clauses provide legal protection against demutualisation and 'windfall profits' being paid out to its members, (shareholders, if appropriate) and directors, without all the necessary checks and balances of mutuality or charitable status.
- There is transparency of operation as a CIC has to deliver an annual community interest company report about its activities for the public record. This includes details of assets transferred for less than market value; dividends paid; stakeholder involvement; and directors' remuneration.
- Stakeholder involvement is integrated into its governance through its annual community interest report.
- It can be a company limited by guarantee or limited by shares.
- A CIC limited by guarantee, or limited by shares under schedule 2, is considered to be a 'not for profit' company.
- It can take advantage of the risk-taking features of a company and can access the debt market for loans and bonds.

- If limited by shares it may be able to expand through the selling of shares.
- There is no limit to the level of profit a CIC is allowed to make as this profit will be used to benefit the community it was set up to serve.
- If a CIC limited by shares aims to make profit that profit can (under certain checks and balances) be distributed to its members (who may or may not form part of the requisite community). This feature is designed to enable the CIC to be more self sustaining in the long term.
- The CIC has greater flexibility compared to a charity in terms of its activities. It does not have trustees and its directors can receive reasonable remuneration. This enables a tight structure to encourage good business decision making in the interests of the community.
- There are no tax advantages so regulation is light touch, a balance of minimal regulation whilst maintaining confidence in the "CIC" brand.
- A CIC has continuity of purpose once it is incorporated it will continue in existence until it is either dissolved, or converted to a charity. If it is dissolved the residual assets will be preserved for the community rather than distributed to members. So a CIC may find Community Finance Institutions a valuable source of funds.

For the benefits of a CIC please see the card provided in the case studies series, or the leaflet on the CIC Regulator's website:

How is the community interest company asset lock and community purpose regulated?

As you would expect, to gain CIC status there are number of obligations that a CIC has to meet and continue to meet in addition to those imposed on an ordinary company:

- To satisfy and continue to satisfy a community interest test, by demonstrating that the company's activities are being carried on for the benefit of the community it was set up to serve.
- To adopt certain statutory clauses in its constitution (this includes a clause to lock in the assets to providing benefit to the community).
- To deliver an annual CIC report with its accounts.

What is the community interest test?

A community interest company (CIC) has to provide an additional community interest statement describing what it will do, who it will help and how. If it makes a profit, or surplus, what the company will do with it. If the Regulator decides that the organisation is eligible to form as a community interest company this information, which is provided on a form CIC36 or CIC37, is placed on the public record.

Section 35(1) of the Companies (Audit, Investigations and Community Enterprise) Act 2004 states: “A company satisfies the community interest test if a reasonable person might consider that its activities are being carried on for the benefit of the community”.

This statement sets on the record in a transparent manner the purpose, the activities and desired outcomes for the CIC going forward, which are overseen by regulation throughout the life of the company.

What are the statutory clauses?

A CIC articles contain certain statutory clauses:

- To lock in the assets to benefiting the community it was set up to serve.
- To prevent the CIC falling under the control of individuals, or organisations, who are not members.

The “asset lock” is overseen by regulation and the statutory clauses cannot be removed from its constitution, unlike ‘normal’ companies. It is this that sets it apart from other companies and prevents demutualisation and windfall profits being paid out to its members and directors.

What is the Asset Lock?

This means that, subject to the CIC meeting its obligations, its assets must either be retained within the CIC to be used for the community purposes for which it was formed, or, if they are transferred out of the CIC, the transfer must satisfy one of the following requirements:

- It is made for full consideration (i.e. at market value), so that the CIC retains the value of the assets transferred;
- It is made to another asset-locked body (a CIC or charity, a permitted industrial and provident society or non-UK based equivalent) which is specified in the CIC’s articles of association;

- It is made to another asset locked body with the consent of the Regulator; or
- It is otherwise made for the benefit of the community.

Provision to this effect, as prescribed in the Regulations, must be included in a CIC's articles of association. CICs are permitted to adopt asset lock rules that impose more stringent requirements, provided they also include these basic provisions.

Can a community interest company's assets be used as collateral?

The asset lock is not a bar to the community interest company (CIC) using its assets for normal trading, or other business activities, and for meeting its financial obligations. So, the asset lock does not absolve the CIC of meeting the usual duties and obligations of a company.

For example a CIC may take on a commercial venture with the purpose of generating profits to support its community benefit objects. If the venture fails and makes losses, the CIC must still meet its contractual obligations in regard to the venture even if this means depleting its assets or selling some of them to meet its debts.

How can profits be invested in the community with an asset lock?

The essential feature of a CIC is that its activities are carried on for the benefit of the community. The asset lock is there to ensure the CIC uses its assets, including profits, to benefit the community it was set up to serve. The asset lock prevents the CIC from giving away its assets for less than true market value except in certain defined circumstances (see number 8 above).

What is the affect of the statutory "asset lock"?

A community interest company's assets can only be distributed for less than the market value to another asset-locked body (the Regulator's consent maybe needed see 8 above), such as, a CIC or charity or to benefit the community it was set up to serve.

Once a CIC is incorporated it will continue in existence unless it converts to a charity, or is dissolved. If the company is dissolved, any assets remaining after distribution will be

transferred to another asset locked body, such as a CIC or charity, to be used for a similar community purpose.

A CIC limited by shares, which adopts the appropriate clauses in their articles, and subject to company law requirements, may pay a dividend on shares if agreed by a resolution of its members.

Dividends payable to certain types of shareholders (non-asset locked bodies e.g. not a charity or CIC) will be subject to a dividend cap. The cap is, at present, a maximum dividend per share of 5% above the Bank of England base rate and a maximum aggregated dividend of 35% of the distributable profits. Unused dividend capacity can be carried forward for 5 years. There is also a cap on performance-related interest of 4% above the Bank of England base rate.

For example:

If a CIC had 3 shareholders each holding a share with a paid up value of £1 and the Bank of England base rate was 6%. The maximum dividend per share would be £0.11p x 3 = £0.33p aggregated dividend.

If the CIC had distributable profits for the year of £300 the maximum aggregated dividend would be £300 x 35% = £105. As the £0.33p is well within the maximum aggregated dividend of £105 (and the members had agreed to the distribution) the CIC could pay an aggregated dividend of £ £0.33p. For more detailed examples see Annex B of the guidance on our website

The asset lock will not affect the ability of community interest companies to use their assets in the normal course of business. For instance, they will be able to use their assets as collateral for finance, and if they do so, the assets will be available to creditors in the event of default.

How secure is the Asset Lock?

The asset lock is a fundamental feature of the community interest company's articles of association. It is statutory, cannot be removed and is overseen by the Regulator.

The asset lock prevents the CIC giving away its assets for less than the true market value. The only exception is where the assets are transferred to another asset locked body (the Regulator's consent maybe needed see 8 above), such as a charity, or CIC, or used to benefit the community it was set up to serve.

Whatever membership, structure, or governance is adopted, it is for the CIC to ensure that the asset lock is complied with.

Transparency of operation is provided through the CIC report, which is open to public scrutiny and delivered to the Registrar of Companies with the CIC's annual accounts.

If there are concerns about the activities of a CIC the Companies (Audit, Investigations and Community Enterprise) Act 2004 (“CAICE Act 2004”) provides the Regulator with powers of investigation. The Regulator is also able to appoint auditors (at the Regulator’s expense) to examine and report on the accounts of a CIC. The Regulator’s powers of intervention are specifically designed to be used where a CIC’s activities give serious cause for concern. These powers are to be used only to the extent necessary to maintain confidence in CICs.

The Regulator’s powers are wide ranging and include the power to appoint and remove directors, appoint a manager, or to take steps to protect the CIC’s property.

You may wish to refer to sections 41 to 51 of the Companies (Audit, Investigation and Community Enterprise) Act 2004.

What happens to the assets if the community interest company is wound up?

As with any company, a CIC may wish to cease operating and wind up its affairs, or it may be wound up under the Insolvency Act 1986, or the Insolvency (Northern Ireland) Order 1989.

If the CIC is solvent, the directors make a statutory declaration that the company is able to pay its debts in full within 12 months from the start of the winding-up. The declaration includes a statement of the company’s assets and liabilities as at the latest practical date before making the declaration.

The directors’ declaration of solvency must meet the time limits set out in the relevant legislation. A liquidator is then appointed to wind up the company’s affairs. The liquidator does this by calling in all the company’s assets and distributing them to its creditors. Generally if anything is left over, the liquidator distributes the remaining assets among members. This approach differs for a CIC in two respects:

- the members of a community interest company will receive no more than the paid up value of their shares (if it is a company limited by shares); and
- any remaining residual assets of the CIC will be distributed to an asset locked body, such as, a charity or a community interest company as directed by the Regulator. The Regulator must give notice to the company and liquidator of any such direction.

Regulation 23 of the CIC Regulations 2005 which describes the considerations the Regulator must take into account when issuing a direction regarding the residual assets.

Further information can be obtained from Chapters 6 and 10 of our Guidance notes available from our website.

What are the directors' and member's responsibilities?

As with any other company, general company law imposes, on directors, a range of duties and other responsibilities. In addition to these general responsibilities CIC directors (and, for collective decisions the members) are also responsible for ensuring that the company is run in such a way that it will continue to satisfy the community interest test, which is overseen by regulation. For further information please visit www.companieshouse.gov.uk.

Why is there a requirement to deliver a CIC report and accounts?

Whatever membership, structure, or governance is adopted, it is up to the directors and members to ensure it is complied with and is in the best interest of the CIC and its community. This is overseen by regulation.

To this end a CIC must deliver to the Registrar of Companies a community interest company report with its accounts, both documents are placed on the public record. The community interest company report provides transparency of operation.

What information is in the community interest company report?

The CIC report describes:

- how the company's activities have benefited the community;
- what steps were taken to consult stakeholders and what was the outcome;
- what payments were made to directors;
- what assets were transferred other than for full consideration;
- what dividends were paid; and
- what performance-related interest was paid on loans or debentures.

How do I know who the community interest company has consulted?

The involvement of stakeholders is overseen by regulation and is integrated into the corporate governance of the CIC and through the annual CIC report, where the information is reported annually.

Can directors be paid?

CICs have the option to pay their directors remuneration. This too is overseen by regulation. The community interest test and the asset lock apply as much to the remuneration of directors as to any other area of a CIC's business.

So if a CIC pays its directors more than they are really worth (to itself and the community that it serves), the CIC may well be breaching the asset lock. Such a breach may give rise to legal action.

So directors' remuneration should never be more than is reasonable and remuneration arrangements should always be transparent. General company law rules apply and there needs to be legal authority (approval by the members, or provided for in the company's articles of association). The primary discipline on CIC directors' remuneration arrangements is transparency and stakeholder influence, or approval.

This is no different from the trustees of a charity who may, under certain circumstances, receive remuneration, or the Chief Executive of a voluntary organisation who is remunerated.

If, however, one of the criteria for funding is that a director cannot be paid, there is always the option of applying restrictions in the terms and conditions of funding e.g. the monies can only be used for project related tasks and time sheets must be submitted with invoices.

Many CIC directors work on a voluntary basis and do not receive remuneration.

How do funding organisations access information about CICs?

A CIC's annual accounts and community interest company report are delivered to the Registrar of Companies who places both documents on the public record.

The Registrar for England, Wales and Scotland offers a WebCheck service, which is a 'free-of-charge searchable Company Names and Address Index'. This service enables you to search for information on CICs. You can carry out a search on a CIC by using either its name or its unique company registration number.

The initial search of limited information is free, but payment must be made for the provision of certain additional information. Payment is made by credit card and all products are delivered electronically to a unique, secure download area. Currently, it is a £1 fee for the package containing a copy of the CIC's accounts and community interest report.

For further details please use the following link, or the link on the home page of the CIC website.

What do I do if I have a concern about a community interest company?

If a funder has concerns about a community interest company (CIC) that it is funding, those concerns should be raised with the Regulator of CIC.

Sections 41 to 51 of the Companies (Audit, Investigations and Community Enterprise) Act 2004 provide supervisory powers for the Regulator to intervene in the affairs of a community interest company (CIC) (for example by appointing or removing directors).

These powers are designed to be used where the Regulator considers that a CIC's activities are giving serious cause for concern and action will be needed to maintain confidence in CICs generally. The main intervention powers can only be used where the "company default condition" set out in section 41(3) is satisfied

Section 42 of the Companies (Audit, Investigations and Community Enterprise) Act 2004 ("the Act") allows the Regulator to investigate the affairs of any CIC, and Schedule 7 provides the necessary investigation powers. These powers are similar to the powers given to the Secretary of State by section 1038(2) of the Companies Act 2006, which are used by Companies Investigation Branch (CIB) at the Department for Business, Innovation and Skills (BIS).

The power of investigation enables the Regulator to examine the affairs of the CIC in relation to its CIC status; they do not replace the Companies Act 2006 investigation powers. Accordingly, CICs can be investigated in the same way as other companies as well as being investigated by the Regulator.

The Regulator's powers of investigation are intended to enable her to gather information to establish whether her other supervisory powers should be exercised. The Regulator has a discretion to decide whether to launch a formal investigation in any particular case.

Launching a formal investigation is itself a serious step. Generally, a formal investigation will only be launched where the Regulator considers that there is a genuine and serious concern that circumstances may exist which would justify the use of her other supervisory powers, and considers that it is necessary to investigate in order to maintain confidence in community interest companies. In addition, the Regulator will also only investigate where this is a proportionate response. It is expected, therefore, that the Regulator's power to investigate will only be used on rare occasions.

As with the exercise of all of the Regulator's functions, the Regulator follows an approach to investigations which is based on good regulatory practice, having regard to the likely impact on those who may be affected and the desirability of using her resources in the most efficient and economic way.

You will appreciate that for an investigation process to be effective and not to risk unwarranted damage to the reputation of the CIC in question it is essential to maintain confidentiality at all stages. This includes the decision making process and use of our investigation powers. That said, there may be circumstances when such information could already be in the public domain, for example, where an investigation leads to court proceedings and information is disclosed in open court.

It is not, therefore, the Regulator's policy to confirm or deny the existence of an investigation to the complainant, or any other third party, or to publish or tell the complainant about the outcome. Nor is it the Regulator's policy, for the same reasons, to confirm or deny whether she is pursuing a complaint against a CIC.

For more information please visit our website.

Are community interest companies limited by guarantee 'not for profit' companies?

A community interest company (CIC) limited by guarantee is a 'not for profit' company, this means that it does not operate for private profit. Any profit generated is used to grow and develop its business which is benefiting an identified community, or goes directly to benefit that community.

Are community interest companies limited by shares ‘not for profit’ companies

A CIC limited by shares, which adopts the appropriate clauses in its articles, and subject to company law requirements, may pay a dividend on shares if agreed by a resolution of its members.

A CIC limited by shares under Schedule 2 of the Companies (Audit, Exemption and Community Enterprise) Act 2004 is a “not for profit” company as it cannot distribute profits to members that are not an asset-locked body, such as, a charity.

A CIC limited by shares under Schedule 3 of the Companies (Audit, Exemption and Community Enterprise) Act 2004 can aim to make profit and that profit can (under certain checks and balances) be distributed to its members (who may or may not form part of the requisite community) in the form of a dividend, but it may not necessarily do so.

Dividends payable to certain types of shareholders (non-asset locked bodies e.g. not a charity or C.I.C.) will be subject to a dividend cap. The cap is, at present, a maximum dividend per share of 5% above the Bank of England base rate and a maximum aggregated dividend of 35% of the distributable profits. Unused dividend capacity can be carried forward for 5 years.

Does the payment of remuneration or dividends etc create a bar to funding?

The payment of directors’ remuneration or a dividend; or stakeholder involvement; or the CIC structure should not necessarily in themselves be seen as a bar to funding a CIC, as these features are overseen by regulation.

If felt necessary there is always the option of applying restrictions in the terms and conditions of funding e.g. the monies can only be used for project related tasks and time sheets must be submitted with invoices or there must be additional advisory representation, or some kind of independent scrutiny panel.

Can a community interest company be a charity, or have charitable objects?

An organisation cannot be a CIC and a charity. However, some or all of a CIC's activities can be charitable in nature.

A parallel may be drawn with state schools which have a non charitable statutory duty but may have a charitable activity in after school activity, community engagement.

Can a Charitable Foundation fund a community interest company?

A charitable trust can only fund charitable activity, but there should be no reason why a community interest company (CIC) could not apply for funding providing that the CIC meets the charitable trust's criteria regarding the application of that funding.

Do Charitable Foundations fund community interest companies?

The results of a survey of 92 Charitable Foundations in 2007 indicated that about 50% of respondents would consider funding a CIC limited by guarantee and about 30% would consider funding a CIC limited by shares.

The Charity Commission has agreed a form of wording, which if adopted would allow a Charitable Foundation to fund a community interest company. The Charity Commission has indicated that the following wording would achieve this aim; however permission from the Charity Commission to this change would be needed.

“to support such charitable institutions or institutions, “not for profit organisations” and community interest companies as the trustees shall in their absolute discretion determine..... provided that any such support shall be conditional upon it being applied solely for charitable purposes”.

Do community interest companies have a traditional board/trustee structure?

A CIC does not have a board of trustees. This is in contrast to a charity which operates as a company limited by guarantee.

However, the CIC is subject to certain checks through regulation. The CIC's community purpose and the use of its assets are overseen by the Regulator and, stakeholder involvement is integrated into the CIC's governance through the community interest company report. There is nothing to stop a CIC establishing a group of stakeholders to scrutinise the work funded and to monitor its progress.

Should stakeholders be represented on the board of a community interest company?

Stakeholder involvement is integrated into the CIC's governance through the CIC report. The CIC has to report on the steps taken, if any, to consult persons affected by the company's activities and the outcome of those consultations. This report is placed on the public record.

Conditions of funding can dictate that there must be additional advisory representation, or some kind of independent scrutiny panel.

Should a community interest company have a management committee?

A CIC is subject to the regulation of its community purpose and the use of its assets. Stakeholder involvement is integrated into its governance through the CIC report. The need for the Management Committee will negate the benefits of tight management control.

In terms of independent scrutiny there may be little difference between a management committee and a management board when it comes to determining how to use funds to ensure the best for the company and its community.

A board of directors can make far quicker and more productive decisions in the interest of the company at the time it is needed. There is less likelihood of project delay and overrun and a trading company can work to ensure the project can carry on at the end of the funding period in a more sustainable way.

Should I fund a community interest company?

Obtaining financial support, such as grants loans and funding, usually depends on a number of factors not least the strength of a business case, market conditions, the potential performance of the company concerned or certain specific criteria required by a financier.

High street banks are the most significant overall providers of funding and financial services to small and medium sized enterprises. Most have dedicated teams supporting social/community enterprises and some CICs have taken advantage of these services.

At a national level there are financial institutions that look particularly favourably on social enterprises. We have also received positive responses to the funding of CICs from Regional Agencies, local authorities and central government.

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This publication is also available on our website at www.bis.gov.uk/cicregulator

Any enquiries regarding this publication should be sent to:
Office of the Regulator of Community Interest Companies
Room 3.68
Companies House
Crown Way
Cardiff
CF14 3UZ

If you require this publication in an alternative format, email cicregulator@companieshouse.gov.uk or call 029 20346228 (24-hour voicemail).

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