Community Interest Company (limited by guarantee)

This guide sets out the main legislative and regulatory information to be aware of when setting up a community interest company (limited by guarantee).

For a comprehensive guide to the range of legal structures available to those setting up a co-operative, please consult our Simply Legal publication.

The Companies (Audit, Investigations and Community Enterprise) Act came into force in 2005 and created a new type of legal form - the community interest company (CIC). This legal form is specifically designed for organisations wishing to further social objectives as a social enterprise and use their profits for the public good, but which do not require, or are not eligible for, charitable status. As over 2004 there were 9,000 CICs registered in England, Wales, Scotland and Northern Ireland. CICs are limited companies so are subject to company law.

There are two main features that distinguish the community interest company from other corporate forms. Firstly, all CICs will have a compulsory asset lock. The assets of a CIC may only be used for the benefit of the community and may only be distributed to a specific community interest company or charity, not to members or investors.

Secondly, in order to register as a CIC a community interest test must be passed. An organisation will be required to demonstrate, via a community interest statement, that its purposes could be regarded by a reasonable person as being in the community or wider public interest. A community need not be defined geographically but may be a community of interest. However, the regulations do set out certain purposes that would not be acceptable, such as support for a political party or political campaigning.

CICs are registered with Companies House as companies but it is the CIC Regulator who decides whether an organisation passes the community interest test.

CICs can either be a private company limited by shares, a private company limited by guarantee or a public limited company (PLC). A CIC limited by guarantee would have no share capital and therefore would not be eligible to issue shares.

As with ordinary companies, the governing document of a CIC is the articles. The Act and its associated regulations outline what information should be included in the articles of a CIC, the following are compulsory items:

- name - followed by "Community Interest Company" or "CIC" ;
- objects - these must clearly define the activities of the CIC and the community it is set up to benefit; and
- asset lock provisions - these should specify the name of the organisation(s) that the assets of the CIC shall be transferred to upon dissolution. If this is omitted, the CIC Regulator has the power to choose such a body.

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The CIC form is reasonably flexible and can accommodate most forms of constitutional arrangement provided it does not have a negative impact on the community benefit.

A CIC is not eligible for charitable status and as a result does not enjoy any special tax exemptions. CICs may apply for such exemptions (such as business rate relief) but have no mandatory right to them.

As with companies, CICs are required to file annual accounts and an annual return. In addition, CICs must produce a community interest report which is filed on the public record. There are two versions of this report, simplified and detailed. The latter is reserved for those CICs that have more complex arrangements. In the main, a report must provide details of the following:

• remuneration of directors;
• dividends paid on any shares;
• interest paid on capped loans;
• details of community benefit; and
• details of how it has involved its stakeholders.

The regulation of CICs is designed to be light touch, although the CIC Regulator is able to investigate complaints made by members of CICs and has powers to act if a CIC is found not to be operating in the best interests of the community. Such powers include the ability to change the directors of a CIC or wind it up.

The minimum age of governing body members of CICs (usually called directors) is 16.

There is no requirement for the stakeholders to be directly involved in governing a CIC, so it can effectively be owned and controlled by one or more individuals; although CICs are encouraged to involve their stakeholders and are expected to report to the Regulator how they have done so. To ensure good governance and member participation, clauses should be included in the governing document.