

CVS Falkirk Resource Library Community Interest Company (CIC)

A Community Interest Company (CIC) is a limited liability company providing services or activities for community benefit. CICs operate on a business model, aiming to make a surplus or profit to support their activities. However, unlike a Private Sector business, the profit made by a CIC is not distributed to individuals running the company. Any profits made are used exclusively to further the aims of benefiting the community - either a specific geographic community or a community of interest (a specific group of people).

CICs are often run as social enterprise, although their activities and services can be broader than the “social purposes” of a social enterprise. Whilst the ideas for a community benefit trading activity may come from an entrepreneurial individual, the company structure will need to be democratic with the members appointing or electing suitable Board members (Directors) to run the company on their behalf.

CIC Board members or Directors must not be:

- an undischarged bankrupt (except with leave of the court)
- anyone under the age of 16
- anyone disqualified by a court from acting as a company director (unless they have been given permission to act by a court for a particular company)

To be a CIC, your group will need to:

- meet the Community Interest Test
- ensure that your governing document (also referred to as your Articles of Association or constitution) includes certain specified requirements relating to being a CIC
- be incorporated by Companies House in the same way as a normal company, with the same incorporation documents supplemented by a Community Interest Statement.
- observe statutory reporting requirements
- keep the community in touch with its activities
- only use your assets and profits for the community specified (or pass them to another body with similar features)
- include reference to being a CIC in your groups name

Proving community interest

As part of the application process to become a CIC, your group would be required to pass the Community Interest Test. The definition of community interest (benefit) that applies to CICs is fairly wide (and certainly much broader than the definition of community benefit for charities) but it does exclude some groups (such as those with political aims or whose activities involve political campaigning).

A CIC offers the flexibility of a wide range of activities such as:

- running trading activities to support deprived communities here and abroad
- running a business (for example, a retail or manufacturing operation) as a trading arm to generate profits to support activities which directly benefit the community
- running community services more directly, for example by running day centres, or providing transport or other services in the community

The assets and profits (surplus income) of a CIC must remain with the community specified. This prevents disposal of assets to anyone other than the community and is referred to as the Asset Lock.

A CIC has the flexibility to adopt the legal structure of either:

- a Company Ltd Guarantee,
- a Public Company Ltd by Shares
- a Private Company Ltd by Shares

Each of these will offer separate benefits and obligations which means that a CIC can consider which is best suited to its needs.

All CICs (whichever corporate form they adopt) are regulated by Company Law and by the Community Interest Company Regulations 2005. Compliance is regulated by Companies House and the CIC Regulator, meaning that the Directors of a CIC will have statutory filing duties to both.

Advantages of being a CIC

- as a corporate body, a CIC can hold property and borrow money in its own name
- flexible options for trading for community benefit without private gain
- personal liability of members is limited
- two tier structure for decision-making, allowing democratic input from members including the chance to vote on election or re-election of the board of directors
- asset lock ensures that profits and assets are retained by the community
- Directors may receive limited payment (if the CIC's constitution or Articles permits)

Disadvantages of being a CIC

- may incur some set up costs (such as legal fees and registration fees to Companies House)
- dual reporting to both Companies House and the CIC Regulator, including statutory filing of Annual Accounts along with annual CIC Report
- cannot apply for charitable status in Scotland

How to apply

To be eligible to be a CIC, an enterprise or business must pass the Community Interest Test, make a Community Interest Statement and comply with the relevant legislation.

An existing company may be converted to a CIC by changing its name and making the necessary changes to its constitution (or Articles).

Most suitable for....

A Community Interest Company (CIC) is most suitable for groups that:

- want to trade for the benefit of a specific community (as long as any current constitution permits them to do so)
- can prove that their activities and services will benefit the community
- want to limit the personal liability of members
- want to run, lease, manage or own community assets such as shops, garages, day care centres
- do not have charitable purposes and are not seeking charitable status (in Scotland a CIC is not eligible to be a registered charity itself)
- are existing charities who want to set up a trading arm (the trading arm, which would not have charitable status itself, could be a CIC)

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Related Documents:

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