

## community interest companies



# New company, new potential

For established charities, the introduction of Community Interest Companies may not mean much at first glance. A second glance may be in order, as owning a CIC as a charity trading arm could provide a rather lucrative source of new funding. Yasmin Waljee explains

On 1st July this year, the government introduced legislation which brought into being a new form of company called a Community Interest Company (CIC). CICs have been introduced principally for those wishing to establish social enterprises, but as a corporate form they may be equally well suited for use by charities as a trading subsidiary.

CICs can be private companies (limited either by guarantee or by shares) or public limited companies. Whatever form they take, the key feature is that the assets of the CIC cannot be disposed of other than for full value or to another similarly asset-locked body (such as a charity), and that on winding up the residual assets have to be passed to another CIC or other suitable organisation – again, this can be a charity. This is known as the “asset-lock” which must form part of the company’s constitution for it to be incorporated as a CIC. In the past, companies have been able to include this in their constitutions, but there was no obligation to include it or to keep it included.

CICs are regulated by the CIC Regulator who is independent from the Registrar of Companies and the Charity Commission. When registering a CIC, one of the most fundamental criteria that an applicant must satisfy to the CIC Regulator is that its purposes will be beneficial to the

community. For a charity starting a CIC, the charitable aims of that charity will, in the majority of cases, satisfy the community interest test. The CIC must then file a publicly available annual community interest report which will set out how the company has benefited the community throughout the year. The CIC regulator will also set the limit on dividends which can be paid to investors by a CIC limited by shares.

Apart from primary purpose trading and small levels of non-primary purpose trading, charities which want to trade substantially are generally not allowed to do so.\* Traditionally, trading activities have been “hived-off” into special purpose subsidiary trading companies and a CIC would certainly be a viable corporate form to do this.

Because of the asset-lock and because the CIC can issue shares, less traditional forms of external funding may be available. Currently, there are some forms of financing and investment which have not been available to charities or their trading subsidiaries.

Now, however, some venture capital investors and some regional investment and loan funds, which are able to give their investors Community Investment Tax Relief, may now become interested in investing in CICs run by charities.

A further source of funding may be in

the form of Lottery grants under the National Lottery Act 1993, which are available to charities and other philanthropic or benevolent organisations. Although National Lottery funding is available to charities, it isn’t necessarily available to subsidiaries of charities. The extra CIC regulation is likely to provide further comfort to investors, or grant or fund administrators, when choosing where investments and grants should be given, and external investors can get a return on their capital by way of dividends (subject to the cap set by the CIC regulator). Further still, it is possible that certain forms of regional and local authority grants could be available to the CIC which wouldn’t have been available to traditional forms of company, even though they were set up as subsidiaries of charities.

In terms of regulation, the underlying charity will continue to answer to the Charity Commission. In addition, though, as well as complying with normal company law, the CIC will have to comply with the regime put into place by the CIC Regulator. This will clearly add an extra layer of bureaucracy (such as submitting the annual community interest report and complying with other requirements laid down by the CIC Regulator) that would not be there if the charity were to incorporate a standard company, but this may be an acceptable price to pay for having access to additional sources of funding.

In the short term, it is possible that charities may not see setting up a CIC as that attractive because of the extra layer of bureaucracy and third party investors may still not want to invest in a charity’s subsidiary even if it is a CIC. However, in time this may change and it is possible that a CIC will become an increasingly normal corporate form for a charity to use and in which a wider group of individuals, groups and organisations can feel comfortable investing.

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*\*Charities that want to trade must follow the Charity Commission’s guidance on “Charities and Trading” – CC35 available on the Charity Commission’s website – [www.charitycommission.gov.uk](http://www.charitycommission.gov.uk)*