CICs (Community Interest Companies) and grant funding.

There has been a significant increase in the number of CICs (Community Interest Companies) being registered in recent years. CVS has also seen a big increase in requests for support from CICs.

Local funders have provided some feedback on some of the additional challenges and complexities that they face when considering an application from a CIC.

That feedback is summarised below, to help future potential grant applicants and local funders.

1. Legal structures

- Whilst there are 3 'types' of CIC, most funders will only typically support a CIC that is using a 'Schedule 1' (limited by guarantee) structure, although some funders will also consider Schedule 2 (limited by shares).
- For most funders, the asset lock and statement of social purpose are key.
- The table below outlines the most notable differences between the 3 schedules.

Type	Structure	Dividend Payment?	Common Use
Schedule 1	Guarantee	No	Non-profit
Schedule 2	Shares	Only to Asset-Locked Bodies	Social Enterprise (no private gain)
Schedule 3	Shares	Yes (capped)	Social Enterprise (some investor return)

2. Trading

- The CIC legal structure is normally selected to allow an organisation to 'trade for a social purpose'. Organisations can be more commercial / entrepreneurial than the traditional 'Registered Charity' model.
- However, funders are reporting that many CICs that are applying for grants are not trading, and don't appear to have any plans to do so in the future. For this reason, some funders have the requirement that CICs must submit business plans in order to demonstrate a rounded approach to income generation.
- If a CIC is planning on being grant dependent, with no plans to trade, then they should expect to be asked why a traditional registered charity option was not a more appropriate legal structure.

3. Due Diligence

- The information typically available from CICs on their governance and accounting is insufficient for some funders to conduct an appropriate level of grant-making due diligence. Some funders have therefore felt it necessary to develop additional criteria for CICs looking to apply for funding, for example, provision of additional detail regarding accounts, plans for trading and outcome reporting.

4. Ability to pay decision-makers

- Directors of a CIC can be paid, but funders expect that payments to Directors must be reasonable, comparable to similar roles elsewhere and in the CICs interests i.e. consistent with their social purpose.
- Best practice would be to ensure that a majority of the Directors do not receive payments, to limit any conflicts of interest.

5. Balance of power

- Most funders expect a non-profit organisation to have a Board of three or more unrelated Directors or Trustees. For a CIC you should additionally ensure your ‘persons with significant control’ are consistent with the balance of power (voting rights) of your board.
- Funders are unlikely to support funding applications if the balance of power on the board does not rest with an unrelated and unremunerated majority (e.g. not members of the same family, and/or a paid Director).
- If Directors and employees/contractors are the same people, line management and remuneration arrangements should be transparent and appropriate.

Conclusion

Whilst CICs are now able to apply for grants from more funders than in the past, research on each funders’ criteria is strongly recommended before you apply.

Please refer to our quick comparison guide to CICs and CIOs for further information.