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Business advice with a different perspective

Community Interest Companies Corporate Governance Considerations

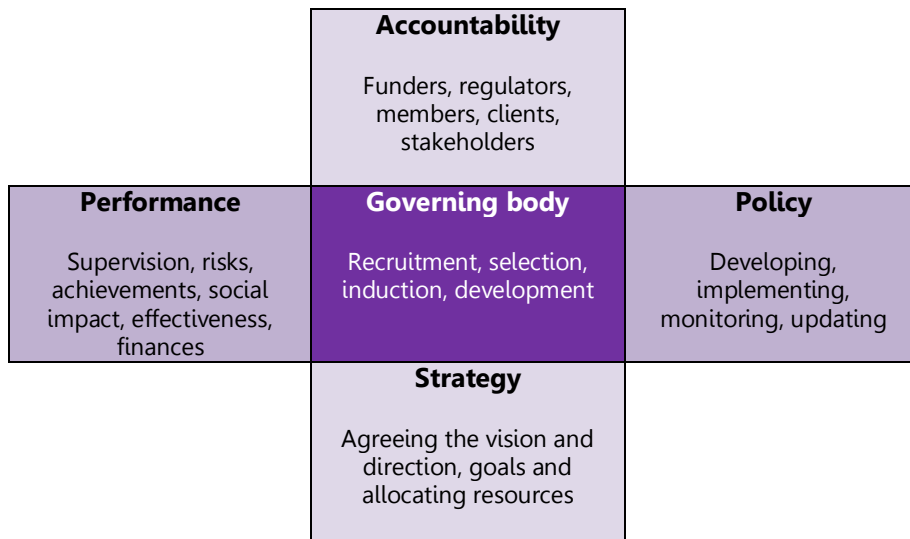


1. What is governance?

Governance is the systems and processes concerned with ensuring the overall direction, effectiveness, supervision and accountability of an organization. A Community Interest Company (CIC) will be expected to demonstrate how well it is governed. Good governance is a vital part of how all businesses and organizations operate and are held accountable.

2. Governing body responsibilities

This paper looks at the broad principles of corporate governance for a CIC. The following diagram outlines the key areas of governance responsibilities for company directors:



In all likelihood the board will need to delegate to deliver against these themes on a day-to-day basis but the directors of the CIC will have overall responsibility for these areas.

3. Standards and values

A CIC is a private company but also has a community/public ethos. The directors of the company could also therefore consider adapting the 'Nolan Principles' of standards in public life to ensure appropriate values of corporate governance. These are:

- *Selflessness* – acting in the public interest. Not gaining financial or other benefits for themselves, their family or their friends.
- *Integrity* – not placing themselves under any financial or other obligation to outside individuals or organizations that might seek to influence them in the performance of their duties.
- *Objectivity* – awarding contracts, or recommending individuals for rewards and benefits on merit.
- *Accountability* – to the public and submitting themselves to scrutiny appropriate to their office.
- *Openness* – being as open as possible about all the decisions and actions they take.
- *Honesty* – declaring any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.
- *Leadership* – promoting and supporting these principles by leadership and example.

4. General principles of corporate governance

Company directors are responsible for the management of their companies. They must act in a way that promotes the best interests of the company. They are also responsible to employees, trading partners, the state and, in the case of a CIC, the community in whose interests the company works. The company is a legal entity in its own right so interests must be balanced. The following are important areas for the company directors to consider:

- *Appointing directors* – the company must have at least one director. Procedures should follow the articles of association. Non-executives have the same responsibilities as others. Some people are barred from being a director, e.g., undischarged bankrupts without court permission, people who are disqualified, under 16's.
- *Directors' powers* – the powers to act in the CIC are broad. Directors are expected to exhibit a degree of skill that could be reasonably anticipated for people with their experience.
- *Financial responsibilities* – directors must act to promote the success of the company. Consider stakeholders, creditors, the company's reputation, conflicts of interest, etc.
- *Key duties under company law* – must avoid wrongful trading/trading insolvently. Must complete annual returns to Companies House.

- *Other key legal duties* – comply with employment law. Ensure health and safety. Pay tax, NI and VAT (where appropriate) on time. Consider data protection.
- *Potential penalties* – directors can be personally liable if they act negligently. Penalties from HMRC/Companies House may apply for late payments or late filing of documents.

5. Specific features of CIC governance

Community Interest Companies (CICs) have to produce an annual report to the CIC Regulator – the CIC34 form. As a minimum, the questions on this form determine some of the key regulatory issues that CICs must cover. These are:

- Having clear social aims that benefit the community (meeting the 'community interest test').
- Robust methods of reporting on impact and activities.
- Transparency around how they deliver against the community interest statement and asset lock (i.e. what happens to profits and assets of the business and how much directors are paid).
- Appropriate methods of consulting with stakeholders – being able to demonstrate how they have consulted and what actions have been taken as a result of this consultation.

Over and above this there are elements of good practice that any business needs to strive for and deliver to be successful. Most of these are inherent in any business and some also apply to CICs in a sharply focussed manner. For example:

General company issues	Additional CIC issues
<ul style="list-style-type: none"> • Developing strong brand • Delivering excellent services that respond to customers’ needs • Demonstrating leadership and vision • Being financially well managed, financially sound and sustainable • Understanding risk and risk management • Developing a world-class staff team. 	<ul style="list-style-type: none"> • Using trading and business activities to achieve social goals • Being accountable to community stakeholders in appropriate and accessible ways • Monitoring, evaluating and proving social impact and communicating this clearly.

This is not an exhaustive list but highlights some of features of a successful CIC.

6. Governance resources

The following websites contain useful information about governance. They are written more for ‘voluntary’ organizations than CICs but do offer helpful guidance:

Good Governance Code: www.governancecode.org
 NCVO: www.ncvo-vol.org.uk/governanceandleadership

7. Want to find out more? Contact:



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