

# Organisational Structures

**Last month, Funding Co-ordinator, Nicola Holmes discussed the advantages and disadvantages of Unincorporated Associations and Charities, this month we look at companies limited by guarantee and Community Interest Companies (CIC)**

## **Companies Limited by Guarantee**

Companies Limited by Guarantee are incorporated bodies where members promise (guarantee) to contribute a sum, usually between £1 and £10, if the company becomes insolvent and is wound up. Therefore, this structure offers the people responsible for managing the organisation known as Directors, some protection from personal liability as the company is limited to this amount paid. Companies are regulated by a variety of Acts including the Companies House Act 1985, the Business Names Act 1985, the Company Directors Disqualification Act 1986 and the Insolvency Act 1986. Organisations looking to become a company must first check with Companies House that the name that they wish to call themselves is not already in use. The same goes for becoming a charity.

The governing document for a company is known as the Memorandum and Articles of Association.

Some advantages of being a company include; the structure is widely understood by funders and solicitors, the company has its own legal identity therefore, it can own and lease property, and enter into contracts and employ people. The corporate status of the company also protects both the Directors and members for the company's actions, in most circumstances. Although the Directors run the company the members have ultimate control to elect and hold Directors to account for certain actions. Members also have the power to remove Directors.

This structure is suitable if an organisation has decided to incorporate, will take out substantial financial obligations and wants to offer Directors some protection from personal liability. It is also suitable for organisations that are looking for a flexible structure suitable for any size organisation, the people involved are prepared to ensure that the administrative responsibilities under company law are dealt with; they do not mind the public having access to the registers of members and directors.

Some of the limitations of this structure include administrative burdens of returns to Companies House and requirements on organisations to uphold Company law, there is also a requirement to ensure taxation arrangements are clear. For organisations that are also Registered Charities there is also administrative requirements of returns to The Charity Commission as stated above.

# Organisational Structures continued

## Community Interest Company (CIC)

A Community Interest Company is a relatively new legal structure to meet the needs of organisations which trade with a social purpose (also known as social enterprises or Business with Social Aims). It is particularly attractive to organisations who wish to enjoy the benefits of limited company status and want to make it clear that they are established for the benefit of their community rather than their members but are not established to become charities.

Community Interest Companies must register as a company in the usual way, but will also need to show that the organisations purposes are in the interests of the community or wider public and that access to its benefits will not be confined to an unduly restricted group. Organisations demonstrate this by completing a 'community interest test'.

Community Interest Companies will not be able to distribute profits and assets to their members as the governing document must include a clause known as an 'asset lock'. This ensures that the assets and profits of the CIC will be primarily devoted to the benefit of the community rather than rewarding the owners or investors.

CIC's carrying out business will need to generate surpluses to support its activities, maintain its assets, and make its contribution to the community. Many will have to apply for external funding such as grants or donations to achieve these ends.

Community Interest Companies will not be able to register as charities and organisations that are legally charitable cannot register as a Community Interest Company. A CIC may pass its assets and profits to a charity as they are both asset locked bodies and a Charity may set up a CIC subsidiary to for example run a charity shop. In either case careful consideration should be taken when changing the structure of an organisation and advice should be sought from specialist advisers.

To register as a CIC an organisation must adopt a Memorandum and Articles of Association and also make a 'Community Interest Statement' declaring its activities will be carried on for the benefit of the community and also how this will be achieved.

The CIC must satisfy the Regulator and pass a 'Community Interest Test' on a continuing basis throughout the life of the organisation. It is advised that rather than thinking in terms of CIC's being non profit making they should instead be thought of as making profits / surpluses for their community purposes.

For more information refer to [www.cicregulator.gov.uk](http://www.cicregulator.gov.uk)

For further information about the contents of this article please call Nicola on 464 0394

## Spotlight on - Full Cost Recovery

Third Sector Organisations in Birmingham and across the country are finding it more and more difficult to acquire resources from funders – these days funders require organisations to provide much more information and meet an often long list of requirements such as being a Registered Charity, a Company Limited by Guarantee, have policies and procedures in place, a quality standard, use innovative ways of delivering services and be led by a robust management committee.

Reductions in monies allocated by grant making bodies for example Lottery Programmes as a result of the London 2012 Olympics; along with changing Government policies are having a direct and indirect impact on Third Sector Organisations' sustainability.

Good financial management is essential in developing successful funding applications and demonstrating effective management to funders. Part of this is ensuring **all** costs incurred from delivering services are included in the financial forecast of projects.

Research carried out by NCVO (National Council of Voluntary Organisations) identified that many Third Sector Organisations are not aware of how to develop good financial management practice in order to contribute to the sustainability of the organisation and there is a need for better advice, support, training and guidance.

Government policy now emphasises and encourages Third Sector Organisations to deliver public services. Commissioning contracts will be an important method of income generation for Third Sector Organisations on local and national scales – making it even more important for effective management to be demonstrated in application forms and tendering processes.

### So what is Full Cost Recovery? (FCR)

FCR means exactly what it states – recovering the full costs incurred.

Government and grant funders are beginning to appreciate the issues that VCOs face when only being able to apply for “direct project costs” or costs that only take place from items linked directly to a project and not the hidden/overhead costs of delivering a project.

In the private / commercial sector FCR has been taking place for years. A simple example; many car mechanics will charge for the overheads they incur while servicing a car. As well as charging for parts and labour – which are the direct costs of the “project” or work carried out; they may also include a proportion of electricity used, rent, heating, and telephone bills. This is a simple example of how full cost recovery works as the mechanic will recover the full costs of carrying out the service, usually the final bill ends up being surprisingly more than first anticipated. Similarly when an organisation calculates

the full costs of delivering a project/ service they often find the total cost is a lot more than expected. This additional amount would previously have been paid out by the organisation out of their own finances. This explains why many organisations seek 'core costs' to pay for salary of managers as they haven't included proportions of these costs in other applications even though the project would have to be overseen by the manager!

### So how do you calculate the full costs of your project?

First of all you must calculate the direct costs of your project will be, that is what you couldn't deliver the project without. For example – a project to deliver trips out for older people, the direct costs would be

- trips – entrance fees
- transport costs
- lunch and refreshments
- volunteer expenses
- administration costs/ publicity

Then some possible indirect costs for delivering this project could be;

- office rent in proportion to time spent organising
- heating, lighting, telephone costs in proportion to the time spent organising
- if a paid staff member has to dedicate time to organise – proportion of salary
- management costs for supervising another member of staff

In order to calculate what the indirect costs are it is important that organisations have clear breakdowns of all costs incurred such as total annual utility costs, rent, salaries of staff which can then be apportioned to each specific project.

To calculate the information required to work out the full cost of projects it is vital that the organisation has sound financial accounting procedures in place so it is aware of where all money sits within the organisation.

~~As a way of supporting Third Sector Organisations account for the full cost of projects External Funding Support has purchased copies of NCVO's 'Full Cost Recovery: A guide and toolkit on cost allocation', the document also includes a CD Rom with a full cost recovery 'calculator'. For your **free** copy please email [efs.enquiries@birmingham.gov.uk](mailto:efs.enquiries@birmingham.gov.uk). Books will be allocated on a first come, first served basis, and only **one book per organisation**.~~

~~Please include your name, organisation and address in the email~~