

Social Enterprise Knowledge Centre: Insight

January 2024

Community Interest Company dissolution rates

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Key findings

- Community Interest Companies (CICs) were dissolved, on average, at a lower rate than other forms of registered business during the pre- through to post-pandemic period of 2018 to 2023.
- CICs tend to dissolve at a younger age than other forms of business.
- CIC registration is growing significantly - and proportionately more than registration of other legal forms of business.
- CIC registration rates dropped proportionately more than other legal forms in the period 2021-2022 as the economy re-opened.
- The North-East of England sees persistently high dissolution rates, although there was also a sharp peak-Covid drop in dissolutions here. Dissolution rates stayed relatively static in the North-West and in Scotland.

The Community Interest Company (or CIC) is a business registration form: a limited company, with special additional features, created for the use of people who want to conduct a business or other activity for community benefit and not purely for private advantage¹. Not all CICs are social enterprises, predominantly because not all will receive at least half of their income through trading. However, CIC registration is a useful proxy to look at a sub-set of social enterprise activity.

Introduction

Since its creation in 2005, CIC registration has grown rapidly to more than 31,500 by January 2024. There was a particular spike in CIC registration during the peak Covid-19 period², followed by a sharp increase in dissolution rates in 2022³.

Drawing on new analysis by the University of Worcester, this paper explores the pattern of CIC dissolutions over the past five years through the pre and initial post Covid period.

¹ <https://www.gov.uk/government/publications/community-interest-companies-business-activities>

² <https://www.pioneerspost.com/news-views/20210825/record-number-of-community-interest-companies-amid-rise-of-grant-funds>

³ <https://www.pioneerspost.com/news-views/20220812/community-interest-company-closures-72-latest-financial-year>

Registration and dissolution across the pre- and post-Covid period

Table 1 sets out increases in overall numbers of all businesses registered with Companies House alongside numbers of registered CICs. More CICs registered in proportionate terms throughout the period, but they experienced a much more significant drop in registration numbers in 2021-2022 than businesses as a whole.

Table 1: Registration numbers

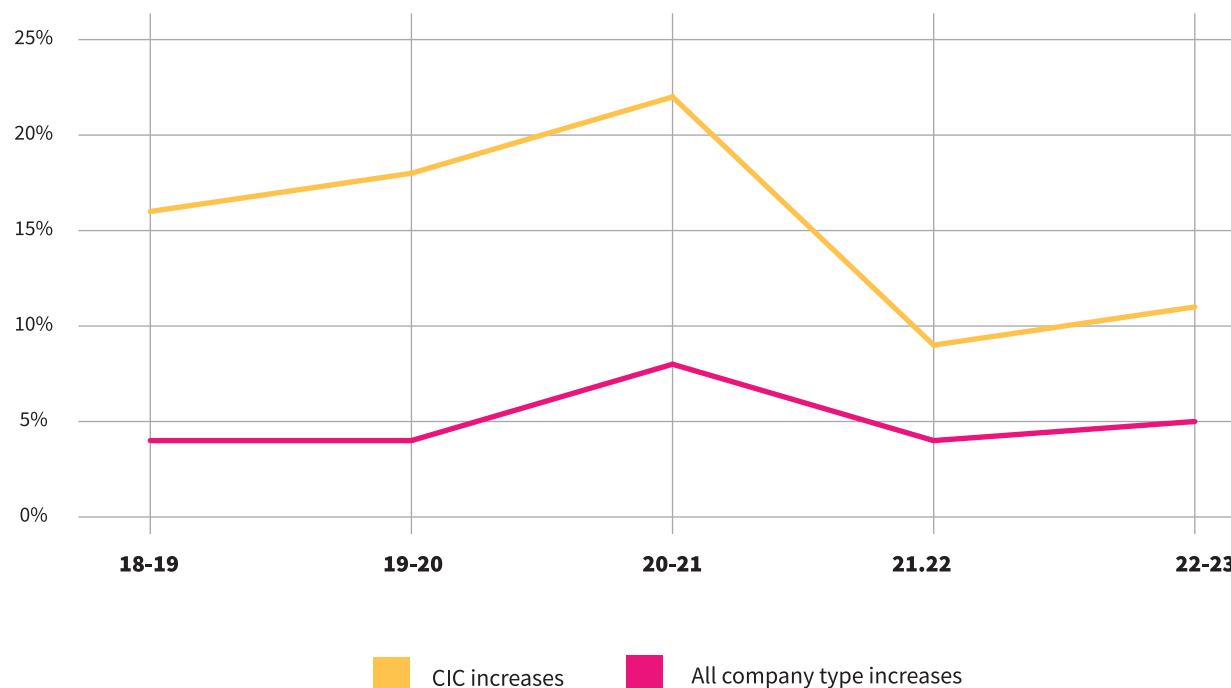
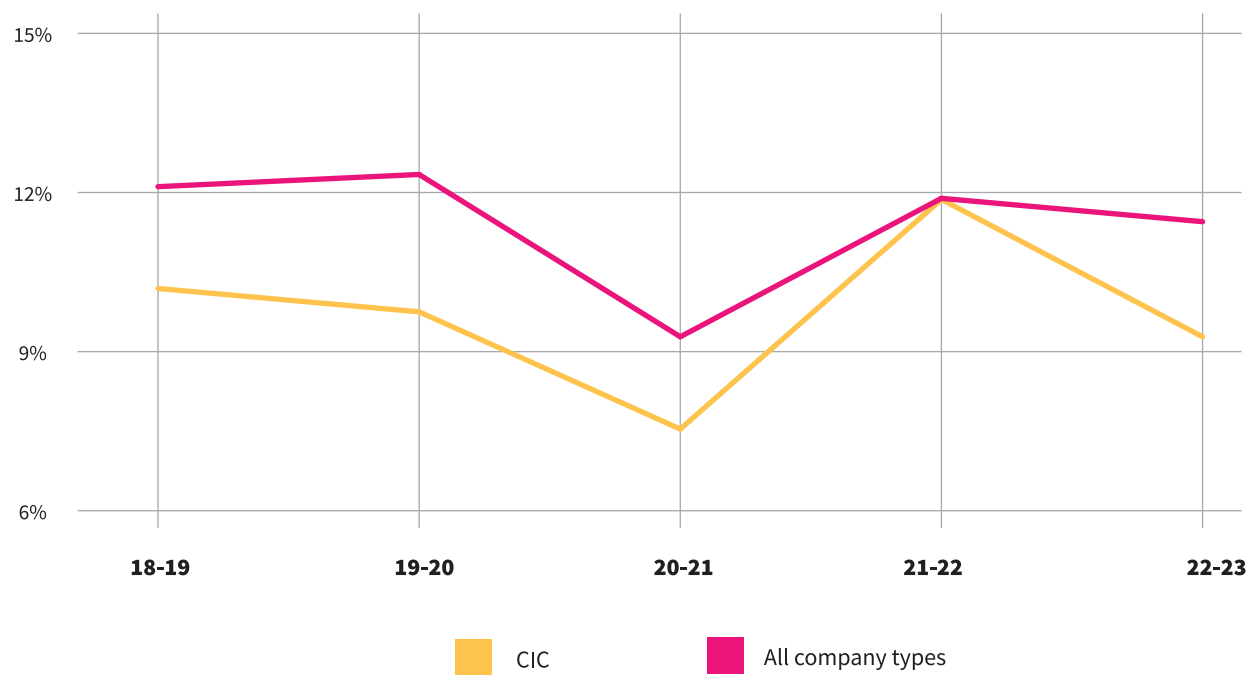


Table 2 shows CIC dissolution rates over the last five years, alongside dissolution rates for all businesses registered with Companies House. Dissolution rates overall are consistently lower for CICs than for other business forms. There was a dip in dissolution rates in 2020-2021, which may partly be explained by a period during the Covid pandemic when business dissolutions were paused by the UK Government. The government's support scheme to subsidise UK companies during lockdown could also be a factor to explain the findings (Pope and Hourston, 2022).

The spike in CIC dissolutions the following year can, in part, be explained by this pause and re-opening - and by the jump in CIC registrations during Covid, several of which closed within a short timeframe thereafter⁴.

Table 2: Dissolution rates



14.5% of the businesses other than CICs and 19.3% of the CICs that initiated dissolution⁵ in October 2020⁶ had registered just months earlier in 2019. An even higher proportion - 21.6% of the CICs and 23.6% of the other registered businesses that initiated dissolution in October 2020 - were registered just the year before, in 2018. Fewer 2017-registered businesses sought to close at this point: 11.4% of CICs and 9.94% for other business forms.

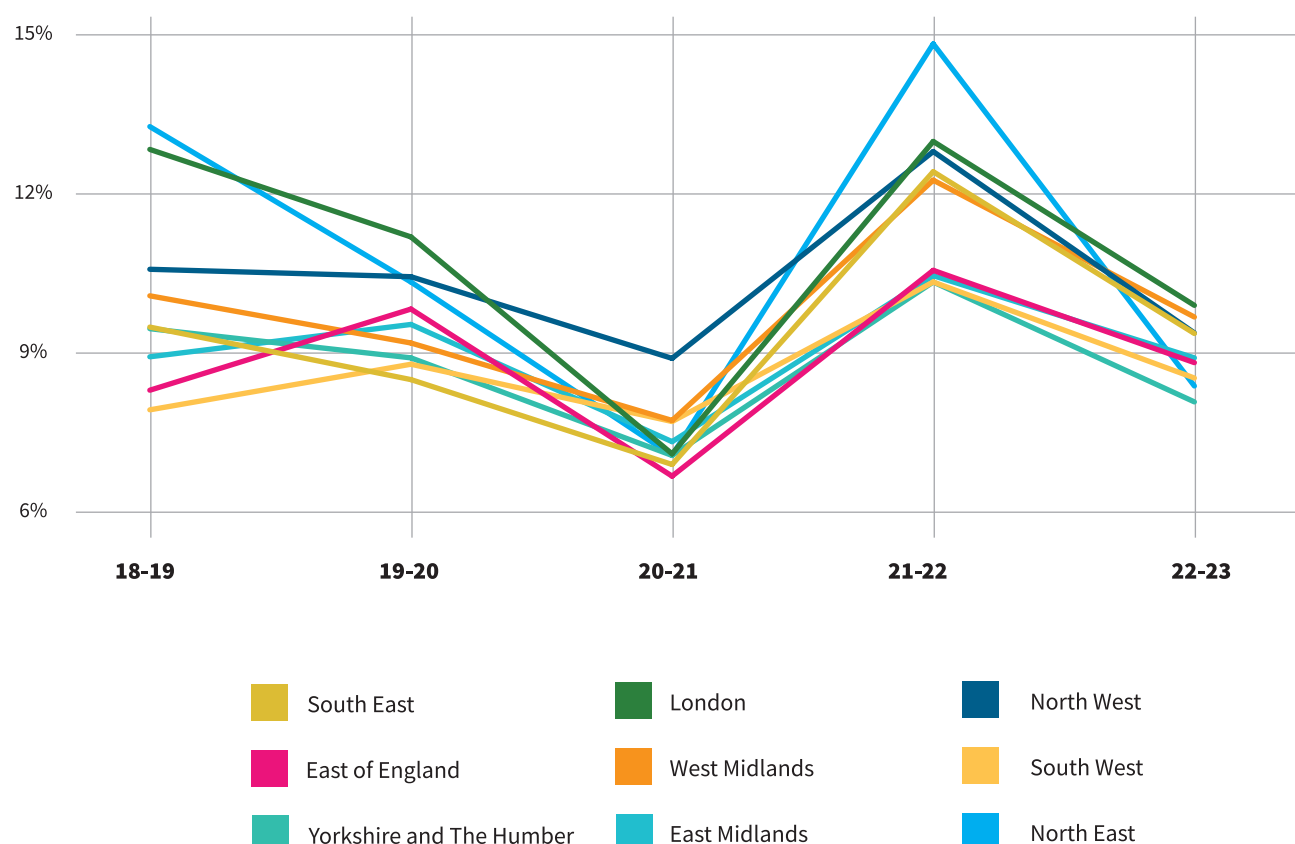
This indicates a significant closure rate amongst all newly established businesses at the height of the Covid pandemic, and that the jump in CIC registrations in 2019-2020 was partly dampened by the proportion that dissolved shortly afterwards.

Regional analysis

Tables 3 and 4 show dissolution rates by the main areas and nations of the UK. Dissolution rates pre-Covid were highest in the North-East and London, where they dropped most during the pandemic and returned to pre-Covid levels by 2023 for London and spiked higher for the North-East in 2021/2022. This year also saw higher dissolution rates in the North-West, South-East and West Midlands.

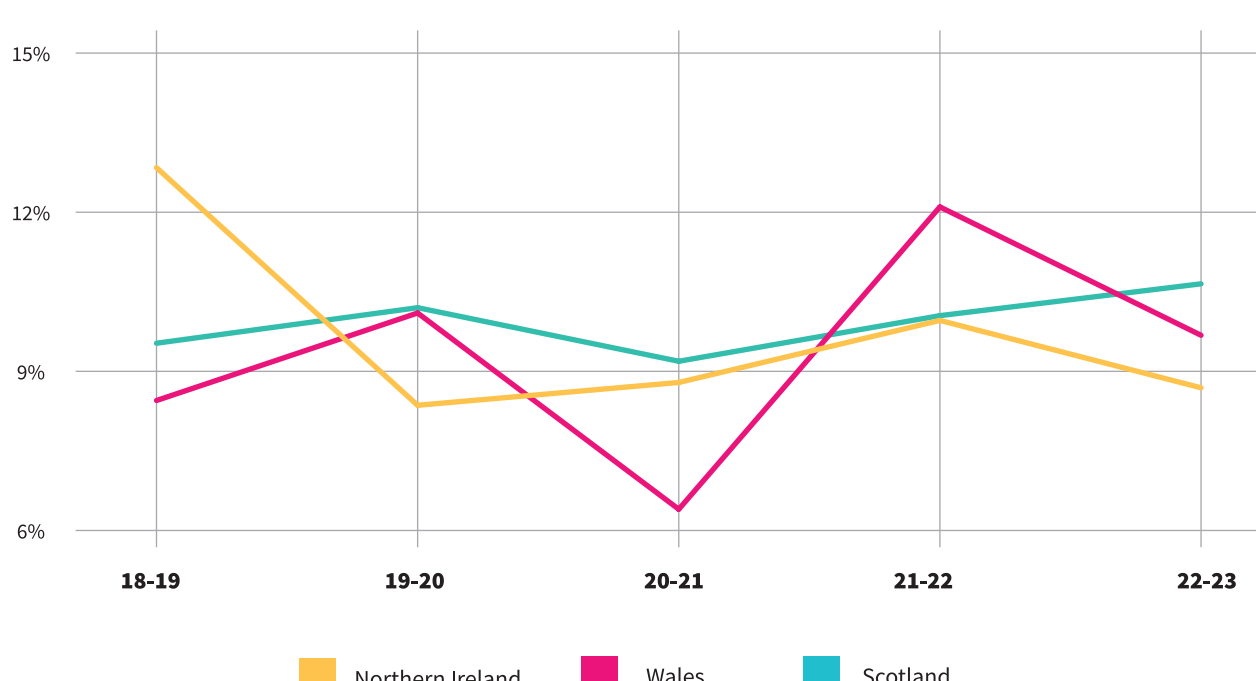
By contrast, dissolution in the South-West, East of England and East Midlands started lower and remained steadier throughout the period.

Table 3: Dissolution rates by English region



CICs in Scotland had reasonably static dissolution rates across the period, appearing less affected by Covid. Scotland had the lowest variability, at .006, and the smallest dip in percentages in 2020/21 during lockdown restrictions. However, in 2022/23 when all devolved nations saw improved dissolution rates, Scotland continued to increase its number of dissolved CICs.

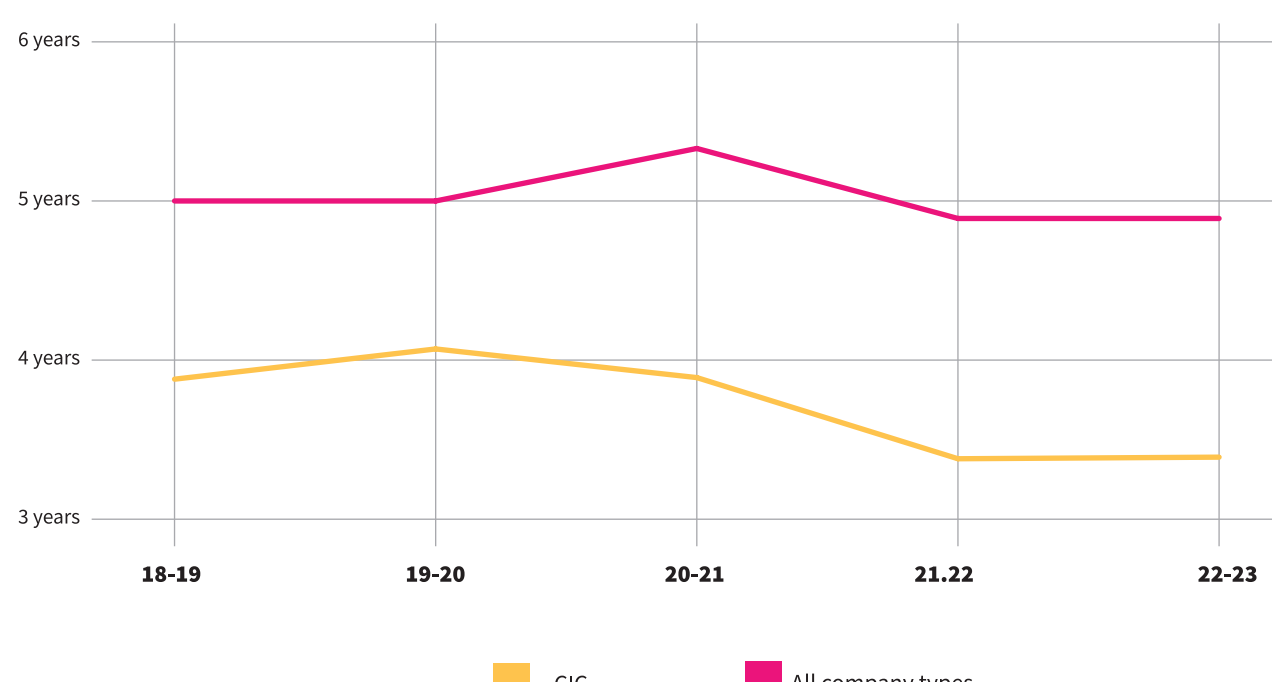
Table 4: Dissolution rates in the devolved nations



Age at dissolution

The analysis looked at the registration date to determine the age of companies on dissolution. As shown in table 5, CICs had a lower age at dissolution compared to businesses as a whole.

Table 5: Average age of dissolution in years



This research was conducted by Dr Laila Kasem and Matei Balteanu from the University of Worcester with support from Sabrina Doshi, Dean Hochlaf and Emily Darko.

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⁴ <https://www.pioneerspost.com/news-views/20220812/community-interest-company-closures-72-latest-financial-year>

⁵ Recorded on the Companies House database as active-proposal to strike off

⁶ The option to dissolve was restored on 10th September 2020