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Company Limited by Guarantee (CLG)

The CLG is a useful and common legal structure in the social enterprise and wider third sector. It is a flexible and adaptable structure that is relatively straightforward in its compliance and reporting obligations.

The CLG is a type of limited company and is therefore regulated by Companies House under company law. There are no shares in a CLG, making it useful for social enterprise as a structure. The CLG has a membership, wherein the members act as guarantors of the company, agreeing to continue a token amount to the debts of the company should it dissolve for any reason. This token amount is often £1.

The CLG has limited liability for its members, and limited liability for its directors if they adhere to their legal duties as set out in company law. THE CLG also has a separate legal personality allowing it to hold assets in its own right.

The CLG is flexible in that it allows for both single tier and two-tier governance. The CLG is run and managed by its directors, but the membership is an important feature of this structure. In a single tier, the membership is closed to the directors only, and the decision making reserved for the members, is performed by the directors. In a two-tier, there is a larger membership, which is open to others as defined in the governing document.

The CLG can be established with an asset lock meaning that there is no financial benefit for the members and the profits are reinvested back into company and assets will be passed to another asset locked body upon dissolution (after payment of debts). The CLG, albeit is often used by not-for personal profit activity, it does not come with the asset lock in its basic form. The CLG must modify its governing document (the articles of association) to include any special provisions such as the asset lock. You may also include your governance processes within the articles of association, including the membership provisions, appointment of directors, terms in office, office bearer roles, and remuneration of directors.

**Website**www.arachas3.co.uk

A CLG can be incorporated online, and you are able to upload your modified articles of association within the process. This will be completed within a day or two. For this process, you must have all information to hand, to allow you to complete the application, this carries a £12 fee to incorporate.

The CLG must keep comprehensive financial records and report changes and submit accounts to Companies House.

A CLG may become a CIC or a charity, if it is eligible to do so. If a CLG is not a charity, it must pay corporation tax on profits.

Advantages

- Limited liability
- Flexibility to trade
- Stable form of structure
- Democratic (one member one vote)
- Can apply for charitable status
- Can be converted to a charity or CIC
- Viewed favourably, trusted legal form

Disadvantages

- Administrative & regulatory duties (annual accounts etc.)
- Members cannot benefit from profit
- If charitable, dual regulation with CH & OSCR