

Definitions & Structures in the Voluntary Sector

There are many terms which are used in the voluntary sector, or relate to different parts of it. Some of them tend to overlap and some are difficult to define concisely. Here is a quick guide to the most commonly used ones.

Definitions

The voluntary and community sector

This is an inclusive term for both charities and charitable organisations (not registered as charities), which undertake work of benefit to society. Many voluntary organisations employ staff to undertake a wide range of activities and many are of the size and stature of successful medium-sized businesses, although operating independently for the public good without distributing profit.

The term 'community groups' is often used to include smaller, more informal organisations and self-help initiatives at community level.

The voluntary and community sector is often abbreviated to VCS. It may also be referred to as 'the third sector' (see below).

Charities

Organisations must meet the strict conditions required for charity registration with the Charity Commission. Therefore, not all voluntary organisations are 'charities,' though they may be charitable.

Non-profit sector or not-for-profit sector

Refers to organisations which use surpluses for the benefit of the beneficiaries through direct grant or investment rather than providing managers or committee members with income. Many organisations do make profits on some of their activities but re-invest these into other work and projects.

The third sector

The other two being the public and private sectors. The third sector would include all of the above terms.

Civil Society

Includes statutory bodies (for example the NHS, Universities), general charities, faith groups, Housing Associations, industrial schools, trade unions, trade associations, credit unions, financial mutuals, co-operatives, employee-owned businesses, sports clubs and benevolent societies.

Social Enterprises

This is becoming increasingly used, although there are many aspects which link rather than differentiate a social enterprise from a charity or a social entrepreneur from a successful voluntary sector leader. The main difference is the source of funding and the ability of social enterprises generate income directly from their activities which have a social purpose whereas charities usually need some financial support from charitable donations and grants. As with many definitions there is substantial blurring at the edges.

See page 2 for a list of structures within the voluntary and community sector.

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Structures

Different types of organisations within the sector have to be set up with the appropriate legal structure. There are several types of structure available; here is a quick guide to the most common ones:

Unincorporated association

This is when a group of people come together with a common interest or purpose, and will undertake work for the benefit of the public. They are governed by a constitution and managed by a management committee. They are not recognised in law as a legal entity; therefore the liability of members and the governing body is unlimited.

Incorporated associations

This is when the organisation is a company and is recognised in law as a legal entity. The most popular form of a company is a 'company limited by guarantee'. A company is managed by directors and is regulated by Companies House. It can be charitable or non-charitable (if charitable, it will also be regulated by the Charity Commission.) The liability of governing body is limited, for example, they are liable for an agreed sum (e.g. £1) if the organisation has to wind up. However, they may also be liable for unpaid taxes such as VAT and National Insurance. See information sheet 1.5 for how to become a charitable company.

Community Interest Companies (CICs)

CICs are limited companies 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 advantage.

They must pass a community interest test and have an asset lock, to ensure that the CIC is established for community purposes and the assets and profits are dedicated to these purposes. It means that a CIC cannot be formed or used solely for the personal gain of a particular person, or group of people.

A CIC cannot be formed to support political activities and a company that is a charity cannot be a CIC, unless it gives up its charitable status. However, a charity may apply to register a CIC as a subsidiary company. They have to register at Companies House and with the Regulator of CIC's.

Charitable Incorporated Organisation (CIOs)

This is a new form of incorporation, designed specifically for charities. It enables charities to have a limited liability structure without needing to have company status and be regulated both by the Charities Commission and Companies House. See Information Sheet 1.7.

For further information visit the Charity Commission website: www.gov.uk/government/organisations/charity-commission or Companies House website: www.companieshouse.gov.uk.

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