This is one of a series of factsheets produced by Community Action Norfolk for voluntary and community groups. If you would like some more support or to receive some of our other factsheets please contact the Development Team on 01362 698216.

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This factsheet assumes that you are already a community group and aims to explain the different types of not-for-profit structures you might take. Other business structures might be more appropriate. If in doubt, please contact our Development Team by emailing office@communityactionnorfolk.org.uk

Types of Structure

Charities

Charities can be registered or unregistered. Charities can only register with the Charity Commission:

- When they have an income over £5,000, or,
- If they have property
- If they are registering as a CIO (see below)

All charities unregistered or registered, must follow charity law.

Unregistered Charities

Who is it for?
Ideal for small groups / organisations which are not-for-profit and are unlikely to earn an income over £5,000 or have any high-risk assets such as land or employees.

How do they work?
Unregistered charities should have a governing document of some sort – Terms of Reference or a Constitution are the most common. This sets out the purpose of their work and the rules they should follow. Unregistered charities do not have to report to the Charity Commission, but they should still follow its guidance.

Drawbacks

They are unincorporated (This means they don't have their own legal identity) so cannot easily form contracts, and their Committee / Trustees can be held liable for any contracts. They are often eligible for funding because they are charities, but often only for small amounts. Because they are not registered with a governing body, some people will not consider them as viable partners, or donation-recipients.

Unincorporated charities (Registered charities)

Who is it for?

Any charity with a turnover of more than £5,000 that does not need to be incorporated (See CIOs below) – ideally these do not own property (or plan to), and do not have liabilities like employees or financial contracts (or plan to).

How does it work?

The charity is run by its Trustees, following its governing document (sometimes called a constitution). They report to the Charity Commission annually and must comply with charity law.

Drawbacks

Unincorporated organisations have no legal identity of their own and use the legal identities of the Trustees instead. This means that any contract is taken with the group of Trustees, and they can be held liable individually or severally.

Trusts

Who is it for?

This is for charities who own property assets that are held in trust for a particular beneficiary (it could be an area, such as a Parish or Town) or use.

How does it work?

The asset(s) are owned and managed by the Trustees on behalf of beneficiaries – The governing document (Sometimes called: Trust Deed, a Conveyance, or Schedule) will explain how Trustees are appointed and how the asset(s) must be used, and who the beneficiaries are.

Drawbacks

Because they are unincorporated charities (see above) the Trustees can be held liable for the charity's assets and can find it hard to enter contracts etc. As an unincorporated charity, property will be held by Holding or Custodian Trustees, which can cause confusion (see our web articles: Know your Trustees for more information).

Charitable Incorporated Organisations (CIOs)

Who is it for?
This is for charities who either own land (or plan to), have employees (or plan to), or need a legal identify to enter contracts.

How does it work?
The charity is managed by its Trustees, following its governing document, but it also has its own legal identity which means the charity (and not the Trustees) are liable, except in cases of neglect or criminality. Unlike charitable companies (see below), CIOs only report to the Charity Commission.

Drawbacks
This model has more reporting requirements than small unincorporated charities.

Charitable Companies

Who is it for?
Registered charities that want to be incorporated (before CIOs existed this was how charities could incorporate, and it is an alternative way to be incorporated).

How does it work?
Led by its Directors (who are also its Trustees), following its governing document. It must also follow both charity law and company law. Trustees / Directors are protected from liability except in cases of neglect or criminality.

Drawbacks?
You are registered with both the Charity Commission and Companies House and must report to both annually. You must also follow both charity and company law.

Social Enterprises

Social Enterprises are business structures that have a social benefit / purpose (will make the world a better place). Unlike regular businesses, their profits go towards their social benefit / purpose.

Community Interest Companies (CICs)

Who is it for?
Organisations that have a social purpose / benefit that want the flexibility of a business structure. This is often where founders would like to retain control of the organisation and draw a wage from it.

How does it work?
CICs have a “social benefit statement” that they work towards, but unlike a charity, they can do this through whatever business means suits them best. They report to the CIC Regulator (Part of Companies House) and must follow company law.

Drawbacks
As a business structure, CICs are often less eligible for funding than charities and are expected to sustain themselves through their income generating activities.

Industrial provident Societies (Co-Op)

Also known as Co-operative Societies.

Who is it for?
Organisations who benefit a particular group (their members) and wish to be led by them.

How does it work?
Based on a set of rules, Officers run the organisation on behalf of their members, who decide how the organisation operates. May issue community shares.

Drawbacks
Decisions making and the direction of the organisation is decided by membership. There are limited funding streams available for Co-operative Societies. Members are liable for any unpaid shares.

Industrial Provident Societies (BenCom)

Also known as a Community Benefit Society.

Who is it for?
Organisations who wish to benefit their members, and the larger community – for example, this is a common structure for community pubs. BenComs are similar to cooperatives but includes a requirement to primarily benefit people other than its members. How does it work?

Based on a set of rules, Officers run the organisations on behalf of their members, who decide how the organisation should operate, but the organisation must primarily benefit non-members (e.g. the larger community). May issue community shares.

Drawbacks
Decisions making and the direction of the organisation is decided by membership. There are limited funding streams available for Community Benefit Societies, but slightly more than for Co-operative Societies. Members are liable for any unpaid shares.

For resources, ideas and useful information please contact Community Action Norfolk on 01362 698216 or email office@communityactionnorfolk.org.uk