The Voluntary Sector

The 'voluntary sector' refers to organisations whose primary purpose is to create social impact rather than profit. It is often called the third sector, civil society or the not-for-profit sector.

The voluntary sector is independent from local and national government, and distinct from the private sector. Charities are the largest single category within the voluntary sector. Others include community benefit societies and co-operatives, not-for-profit community businesses or community interest companies (CICs), credit unions and small informal community groups.

What do Voluntary Organisations do?

As a whole, voluntary organisations engage with a huge range of issues – from youth clubs to specialist medical research. Most focus on a particular issue that needs solving, such as climate change or unaffordable housing, or a specific group in society who require support and representation, such as women facing domestic abuse. Other organisations – particularly think tanks and research institutes – may work on a range of issues but apply a particular philosophical and political filter.

31% of the public say that they have benefited from or used services from a charity (Charity Commission research 2017).

Voluntary organisations achieve their aims through a wide range of activities, such as providing services or other forms of direct support and advice to the groups they help; for example, running a women's shelter or providing legal advice. Some also aim to achieve long-term or systemic change. They may work at a local or national level, or globally.

How big is the voluntary sector?

There is no reliable way of calculating the size of the voluntary sector as a whole. However, there is plenty of information about specific categories, particularly charities.

There are over 165,000 charities in the UK. Most are quite small: over 80% have an annual income of less than £100,000, and almost half have less than £10,000. Charities of this size tend to be local organisations (for example parent-teacher associations) and many do not have any paid staff.

Is it different from other sectors?

Voluntary sector organisations exist to fulfil a specific social purpose, whereas the primary goal of private sector organisations is to make a profit for shareholders. Some aspects of the way they work can appear similar to other sectors, but there are a few cultural differences which may surprise first-time volunteers. They are:

1. **Values-led**

The aim of voluntary organisations is to fulfil their mission and work towards the greater good in some specific way, rather than to make a profit. This often means they prioritise things differently than a business would do.

2. **Consensus is important.**

Voluntary organisations often need to balance the competing interests of a wide range of stakeholders and will put a premium on ensuring all stakeholders, including staff and volunteers, are in agreement with its goals and plans. This will involve discussion and consideration by large numbers of people with differing viewpoints.

3. **Fewer resources**

Voluntary organisations do not normally have large budgets, and the budgets they do have are rarely flexible. People who donate to charity rightly expect their money to be spent carefully and as originally stated. Voluntary organisations therefore need to be creative and do more with less. Volunteers, skills-based and otherwise, often play a role in voluntary organisations.

4. **The pace is different**

Things may move more slowly in the voluntary sector than elsewhere. This is because there is an emphasis on collaboration and consensus, as mentioned above. Additionally, limited and ring-fenced budgets mean finding resources for new projects takes more time and ingenuity.

5. **Independence**

A voluntary organisation is run by an independent board who decide on strategy and priorities. There are no private shareholders, and it is independent of government or state

Who are the stakeholders?

Voluntary organisations have a complex mix of stakeholders:

- Beneficiaries – the people who the organisation was set up to help – are the primary stakeholders.
- Management, employees and volunteers who run the organisation and deliver the services.
- Funders (more info here?)
- (The wider public (for example the local community) might also have a stake.

Balancing the different needs and interests of all these stakeholders is one of the more interesting challenges of the voluntary sector.

How are voluntary organisations governed?

The management and governance of most voluntary sector organisations mirrors those in the public and private sector, with a board of trustees who act as the directors and/or governors. Trustees are normally unpaid, apart from reimbursement of out-of-pocket expenses. They set the overall direction of the organisation and ensure that it complies with both relevant legislation and its own policies. The executive management team are accountable to the trustees. In smaller organisations without paid staff, the trustees often do operational work too. This poses a challenge, as these two functions need to be kept separate, even when carried out by the same person or people.

Registered charities and companies are bound by the rules set by the Charity Commission or equivalent, and those established under company law. In addition, many public sector organisations are bound by the Nolan principles of public life.

What is a not-for-profit organisation?

"Not-for-profit organisation" is a broad term for all independent organisations whose purpose is something other than to make private profit for directors, members or shareholders. Many different types of organisations can be "not-for-profit". It is not a legal structure in and of itself.

There are several legal structures to consider when starting a non-profit within the U.K.

Here are details of a range of legal structures available to individuals or groups that want to start their own community groups and not-for-profit organisations, explaining the difference between the various structures before you decide which suits you best:

1. Unincorporated association
2. Charitable trust
3. Charitable Incorporated Organisation
4. Company limited by guarantee
    - Charitable company
    - Community Interest Company
5. Community Benefit Society
6. Cooperative Society

1. Unincorporated Association

- Has voting members
- Can be charitable (but do not have to be)
- Not incorporated

An Unincorporated association is a membership organisation. It can be whatever its members want it to be and carry out whatever activity the members choose. It is the easiest, quickest and cheapest way for a group to set itself up. It is ideal for many small groups, especially those without staff or premises. A large number of groups fall into this category (sometimes without knowing it). To set up an unincorporated association, your group simply needs to draw up a constitution, setting out the rules under which it will be run.

An unincorporated association can be a charity, but it does not have to be. Many unincorporated associations primarily benefit their own members and are therefore not considered to be charitable and are not regulated by charity law. For an unincorporated organisation to be a charity it must have charitable aims and be run for the public benefit. If your group is not charitable you do not need to register with or report to anyone. If your group is charitable, you will need to register with the Charity Commission if your annual income is over £5,000 per year.

An unincorporated association is not incorporated, so it cannot enter into contracts or own property in its own right.

To set up an unincorporated association, all you need to do is write and agree a constitution in your group. If you do not plan to become a charity, your constitution should lay out whatever aims you want for your group.

2. Charitable Trust

- No voting members
- Always charitable
- Not incorporated

A charitable trust is a type of charity run by a small group of people known as trustees. The trustees are appointed rather than elected, and there is no wider membership. A charitable trust is not incorporated, so it cannot enter into contracts or own property in its own right.

To set up a trust your group must write and sign a trust deed, which must show that the organisation is legally charitable. There is a model trust deed on the Charity Commission website. Charitable trusts must register with the Charity Commission if they have income over £5,000 per year.

3. Charitable Incorporated Organisation (CIO)

- Incorporated
- Always charitable
- Association model has voting members, Foundation model does not have voting members.

A CIO is a type of charity which is incorporated. It is quite a new legal structure – it was introduced in 2013.

There are two types of CIO: Association Model and Foundation Model. Association Model CIOs are membership organisations and hold elections, whereas Foundation Model CIOs are run by a small group of appointed trustees.

CIOs must be registered with and report to the Charity Commission, regardless of their income. Unlike charitable companies, however, they do not need to register with Companies House. This means the reporting requirements are simpler for CIOs than for charitable companies.

Registration of a new CIO takes up to 40 days. You will need to use a model constitution approved by the Charity Commission, and apply online via their website to register your organisation.

4. Company limited by guarantee

- Incorporated
- Can be charitable (but does not have to be)
- Voting members

A Company Limited by guarantee is a type of company which does not distribute income to shareholders. This means it can be not-for-profit, if all surplus income is reinvested back into the organisation.

A company is incorporated, and has voting members. It is controlled by a group of directors, who can be paid or unpaid. Companies are registered with and regulated by Companies House. To establish a company, you must adopt a governing document called a Memorandum and Articles of Association and submit it to Companies House. It is a legal document, so it is sensible to get it checked by a solicitor.

A) Charitable company

A company can be a charity if it meets the legal requirements required by charity law. This must be clear from the governing document, so if you wish to set up a charitable company you should use the model Memorandum and Articles of Association approved by the Charity Commission.
In order to be considered charitable, the directors of a company are usually unpaid. Charities may pay their directors in exceptional circumstances, but organisations wishing to pay their directors as a matter of course are likely to find a Community Interest Company, Community Benefit Society or Cooperative Society structure more suitable.

Establishing a charitable company involves registering with the Charity Commission as well as Companies House, and then submitting your annual report and accounts to both organisations annually.

If you are setting up a new organisation, it is worth considering whether a Charitable Incorporated Organisation (CIO) would suit your needs instead. CIOs do not need to report to Companies House, so they are simpler and cheaper to run than Charitable Companies.

B) Community Interest Company

A non-charitable company can still be a not-for-profit organisation: many social enterprises are non-charitable companies. If your organisation is not charitable, you can guarantee your not-for-profit status by becoming a Community Interest Company (CIC). CICs commit their assets and profits permanently to the community by means of an “asset lock”, ensuring that assets are used for the benefit of the community. CICs can have paid directors.
To register a new CIC, you have to apply to Companies House to register a company, and include with your application form CIC36, which you will use to describe how your company will benefit the community.

To apply for CIC status for an existing company, use application form CIC37.

Applications are assessed by the CIC Regulator (a department at Companies House).

Other types of charitable companies

A company can be not-for-profit without being either a charity or a CIC, but it may be harder to prove and guarantee the not-for-profit status to interested parties such as supporters, investors or funders.

Community Benefit Society

- Incorporated
- Voting members
- Can be charitable (but does not have to be)

A Community Benefit Society is owned by its members, who hold shares and control the society democratically, on a one-member one-vote basis.

The society must exist primarily for the benefit of the wider community, and members may not receive preferential treatment. Profits must be used for the benefit of the community (although interest on shares can be paid to members, up to a maximum rate).

A Community Benefit Society can apply for a Statutory Asset Lock, which will allow it to guarantee its non-profit status.

A Community Benefit Society can register as a Charitable Community Benefit Society with the Financial Conduct Authority if it has:
- aims that are exclusively charitable; and
- a Statutory Asset Lock specifying that any assets would be transferred to another charity if the organisation wound up.

This allows the organisation to call itself a charity, although it is not regulated by the Charity Commission.

A Community Benefit Society is a useful structure if your community wishes to take control of an asset, such as a building. You can fund your organisation by selling "Community Shares" and run the service to benefit the wider community.

A Community Benefit Society is incorporated and can have paid directors.

Cooperative Society

- Incorporated
- Voting members
- Not charitable

A Cooperative Society is a similar structure to a Community Benefit Society, but its main purpose is to provide services to its members rather than the wider community. Cooperative Societies must be based on the co-operative values of self-help, self-responsibility, democracy, equality, equity, and solidarity. In general, membership to a Cooperative Society is open to people who use the services provided by the society, or work for the society, and profits may be distributed to members providing this is not the primary purpose of the organisation.

A Cooperative Society cannot be charitable because its beneficiaries are its own members, rather than the public.

A Cooperative Society is incorporated and can have paid directors.

To find out how to register a Cooperative Society contact the Financial Conduct Authority. There is also very useful information about setting up these Societies on the Community Shares website.

How is the voluntary sector funded?

Voluntary organisations get their funding from various sources, including:

- public donations
- grants from trusts, foundations, and government
- contracts for delivering public services at local and national level.
- trading activities, such as charity shops
- managing an asset, such as property
- investments
- social finance.