

# information sheet 1.5

## Definitions and Structures in the Voluntary Sector

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### Definitions

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:

The **voluntary 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 profit distributing.

The **charity sector** - organisations must meet the strict conditions required for charity registration. Therefore, not all voluntary organisations are charities.

The **community sector** - this is used to include smaller more informal organisations and self-help initiatives at community level.

The **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** - third after the public and private sectors. The third sector would include all of the above.

The **social enterprise sector** - this is becoming increasingly used, and 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.

### 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 associations –**

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, eg, they are liable for an agreed sum (eg £1) if the organisation has to wind up.

(See information sheet 1.3 for how to become a charitable company.)

### **Community Interest Companies (CIC's) –**

This is a new legal form for Social Enterprises and has been available since July 05. They 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 have a community interest test and an asset lock, to ensure that the CIC is established for community purposes and the assets and profits are dedicated to these purposes.

A CIC can not be a registered charity – they will not have the benefits of charitable status, even if their objects are entirely charitable in nature. They have to register at Companies House and with the Regulator of CIC's.

### **Charitable Incorporated Organisation (CIO's) -**

This is a new form, designed to allow charities a limited liability structure, without needing to have company status and be regulated both by the Charities Commission and Companies House. They will have a single regulator- the Charities Commission, however, they are not yet available, but they may come in with the Charities Bill in 2006.

There are many sources of information available regarding voluntary sector legal structures and definitions and terminology.

For further information about structures and companies, you can visit the Charity Commission website:

**[www.charity-commission.gov.uk](http://www.charity-commission.gov.uk)** or  
the Companies House website:  
**[www.companieshouse.gov.uk](http://www.companieshouse.gov.uk)**

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