



Getting Started Types of Governance

Choose the right type of group

Keep It Simple and Straightforward

There are a number of different ways to create your community group. Some are simple but offer fewer legal protections, some are more complex but provide more security for those involved and expand your range of options for funding.

If you don't intend to hold property, sign contracts or employ people there is no reason to choose a complex legal structure. If this work is new to you and your residents or your community it will be easier for you to run and manage a new community group that has a simple structure.

Remember—this simple structure can change later if you need to hold contracts or employ people

it is much easier to change a simple structure to a legally approved structure than to close or change a community group registered at Companies House or the Charity Commission

Simple and Straightforward Community Groups

These types of organisations usually have a constitution or a rule book that:

- sets out a clear set of aims or “objects”
- has rules about who can join and rules for members and rules for disputes
- allows you to appoint a management committee or board to run the group
- allows you to hold a bank account and authorise payments
- tells you how and when to run meetings for the members and for the management committee or board

This structure is the most common form of small community group and hundreds of organisations use this structure every day to bring a wide range of community and public benefits. Another name for these types of groups is “unincorporated associations”. This is a legal description and means:

- the organisation is NOT recognised in law as an organisation and not able to hold contracts and employ people as an organisation

This factsheet will help you understand the different types of community organisation and which one is right for you.

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Getting Started

Types of Governance



COMMUNITY ASSET
SERVICES
COOPERATIVE

- the legal liability of the members of the organisation is unlimited and liability is shared by all individual members jointly and individually

Unincorporated organisations can include:

- not for profit social enterprises
- cooperative groups
- for profit partnerships
- for profit enterprises
- unregistered charities or registered charities (see the section below on charities).

If you do choose to become an unincorporated community group it is important that your organisation reduces potential liabilities by

- Ensuring you take decisions in the best interest of the group and formally record these decisions
- Maintaining strict financial controls and have a minimum of two unrelated cheque signatories
- Planning events and activities and identifying any risks with these activities and developing risk assessments for them
- Having appropriate public liability insurances and policies in place
- Only delivering activities you are qualified skilled and confident in delivering

There are many “model documents” for unincorporated groups. If you think you may want to eventually register as a charity the [Charity Commission](#) website provides documents it considers suitable for registration as a charity.

[Manchester City Council](#) also has information and guidance on who to contact locally for support.



A Charitable Community Group

A charity can be registered with the Charity Commission and hold a charity number. Some charities are “unregistered” and do not have a charity number because they have not met the minimum income level set for registration. Not all charities are membership organisations with a democratic structure. Charitable Trusts are organisations in which the only members are trustees and trustees are the only ones to make decisions.

There are 4 things a community must have to be a charity:

1. All of its aims or “objects” are exclusively charitable and there are no non charitable aims

A charitable aim or object is defined in Charity Law and there are currently 13 separate types of charity. These are charities formed for:

- ◆ *The prevention or relief of poverty*
- ◆ *The advancement of education*
- ◆ *The advancement of religion*
- ◆ *The advancement of health or the saving of lives*
- ◆ *The advancement of citizenship or community development*
- ◆ *The advancement of the arts, culture, heritage or science*
- ◆ *The advancement of amateur sport*
- ◆ *The advancement of human rights, conflict resolution or reconciliation or the promotion of religious or racial harmony or equality and diversity*
- ◆ *The advancement of environmental protection or improvement*
- ◆ *The relief of those in need, by reason of youth, age, ill-health, disability, financial hardship or other disadvantages*
- ◆ *The advancement of animal welfare*
- ◆ *The promotion of the efficiency of the armed forces of the Crown or of the police, fire and rescue services or ambulance services*
- ◆ *and “other purposes recognised as charitable under the existing law and any new purposes which are similar to another prescribed purpose.”*

The Charity Commission website provides simple examples of aims or objects it will accept for charity registration. The commission suggests charities which use these example objects will have a quicker and easier registration process when compared to organisations that choose to write their own objects.



2. Members of the committee or their family members or their friends do not gain from personal benefits from the charity. Committee members do not have privileged access to the services of the charity

Trustees should not be paid a wage or salary for being a trustee. Trustees can receive reasonable out of pocket expenses for their role at the charity. Where a trustee is providing a “one off” service to the charity they cannot be involved in the charity’s decisions about that work and must clearly declare a conflict of interest.

If a Trustee receives regular payments or wish to be employed by the charity he or she must resign as a trustee. The Charity Commission may in very exceptional circumstances allow a trustee to be paid, the charity must have the Charity Commission’s prior permission to do so.

Family members and friends of Trustees are considered “connected persons” if they gain a benefit from their relationship with the trustee, or could be seen or are believed to be gaining personally from the charity. A Trustee must declare any and all conflicts of interest including any “connected persons” issues and must not be involved in any decisions relating to these conflicts of interest.

3. A charity must deliver “public benefit” not personal gain

Principle 1 says there must be an identifiable benefit or benefits to the public from the charity’s work. The charity should identify what the benefits are and how these are related to its objects. Benefits must be measured against possible public harm

Principle 2 says benefits must be to the public or a section of the public. Benefits must be appropriate to the charity’s objects. This means working with young people if the charity is formed to work with young people. No unreasonable restrictions can be placed on people benefiting from the charity’s work

4. If the charity is to stop working any money or goods it has left must go to a charity with similar aims in the same area or a nearby area

Charitable funds are raised specifically for the stated aims or objects of the charity and cannot be used for other purposes, even if these other purposes are “charitable”.

When a charity decides it is time to stop operating any money or goods it has must be used for the purposes they were given. Every charity has a “dissolution” or “wind-up” clause in their rule book or constitution or company documents which state what must happen to any remaining charitable property.

As a charity is not a profit making organisation it can benefit from

- 80% discount on local business rates with a further 20% rate relief if the council agrees to not charge the charity
- No tax on income if the income was earned through charitable work
- No tax on donations or the sale of donated goods



- Some tax relief on fund raising activities
- A small tax free allowance for activities which generate income for the charity

Incorporated Community Groups

An incorporated structure allows a community group to

- Directly employ staff
- Directly hold property or assets
- Sign contracts and enter into financial agreements

An incorporated group means

- A structure which is registered and recognised by an appropriate government agency usually Companies House, the Charity Commission or the Financial Conduct Authority
- A structure with limited liability for its members and committee members (trustees)
- A structure which has a legal identity of its own one separate to the personal identities of its members or directors

There are several types of incorporated organisations suitable for community groups

A Community Interest Company (CIC)

These are companies which limit the liability of members and directors provided they operate safely and legally. These companies are used to conduct a business or other activity for community benefit and not purely for private advantage.

There are two types of CIC

- a membership based company limited by guarantee that has no owners and profit is put back into a declared social purpose
- a share based company which is owned by directors and can pay dividends on some profits to share holders

CICs are required to have an “asset lock” to ensure that property and income is used for a social purpose and cannot be sold or used to make private profit for a shareholder.



A Company Limited by Guarantee

This company has no share-holders and is a not for profit organisation with a membership. Company directors are usually elected by a democratic vote by the members. As this type of company is not for profit members are offered some protection against liability through a statement in the company documents called the “Limit of Guarantee”.

Limited by Guarantee means all the members of the company all agree to pay a small amount (between £1 and £10) for company debts or liabilities if things go wrong and there are problems in the company. However, if negligence, corruption or mismanagement have led to problems in the company the directors might be held personally responsible for their actions and the debts of the company. This type of company is the structure that charitable companies adopted to limit their liabilities in the past – but to qualify as a charity it must:

- Demonstrate public benefit
- Establish the voluntary principle of non-payment of directors;
- Have exclusively charitable objectives;
- Have a dissolution clause which restricts the distribution of assets to another charity with the same or similar purposes in the same area of benefit.

Industrial Society or Cooperative Company

An industrial and provident society is an organisation conducting a business or trade either as a co-operative or for the benefit of a community. It is registered under the Industrial and Provident Societies Act 1965 at the Financial Conduct Authority.

Co-operative businesses are democratic organisations owned and run by and for their members. Members have one vote each and members can be paying customers, employees or residents.

Some cooperatives are “for profit” giving members an equal say and share of the profits. Some cooperatives are “not-for-profit” where income is reinvested into a social mission with all members having an equal say over how profits should be used and how the running of the organisation and the conduct of the business.

If your group wants to set up as a cooperative the Cooperative Movement has specialist advice and support available to assist you.

