

## Legal structures of voluntary groups

### What is a voluntary group?

A voluntary group is a collection of individuals who work together to undertake certain activities for the benefit of the community - whatever or whoever that community might be. There are an estimated 25,000 voluntary groups in Wales ranging from small specialist self help groups run by users through to national charities. They can operate on a national county, district or neighbourhood level each tending to have their own specific area of interest.

Voluntary groups generally exist because people perceive a need and work together to bring about change, or provide a service, for the benefit of the community. All groups of this kind should have a governing or managing body of some kind. This group is referred to in a variety of ways e.g. management committee, executive committee or board of trustees.

When a group is set up, there are two key issues to consider:

- The legal structure for the group
- Whether the aims and objects of the group are charitable

### Legal Structures

The rules governing a voluntary group are set out in a constitution, the precise form of which depends on the legal structure adopted. There are three main legal structures used by voluntary groups; an unincorporated Association, a Trust, and a company limited by guarantee.

#### An Unincorporated Association

This structure is ideal for small groups with a membership, short term goals, low incomes, and which do not intend to employ staff or acquire property. Unincorporated Associations are quick and cheap to set up. Unless a group is applying for charitable status, no other agency need be involved. There are no fees to pay unless legal advice is sought on drawing up a constitution.

However, an unincorporated association has no separate legal existence and remains for most purposes a collection of individuals. Any property or contracts would have to be held by individuals on behalf of the group, or any legal proceedings taken against the group would, in reality be against the individuals themselves, making them personally liable.

The issues surrounding liability can be quite complex and are beyond the scope of this guide. Further information is available from the range of publications listed G1— 'Setting Up A group—Before you Start'.

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### A Trust

Trusts are generally set up to manage money or property for a clearly defined purpose. They establish a formal relationship between three parties:

- the **donors** of money or property,
- the **Trustees** (normally 3) who become the nominal owners of the trust property and
- the **beneficiaries** - the people who will benefit from the trust. Trusts can be set up quickly and cheaply.

Trusts are essentially non - democratic organisations as there is generally no membership structure. Trustees can be personally liable for contracts entered into on behalf of the trust. They are not protected from personal liability

### Limited Companies

A company structure is an increasingly popular choice for voluntary organisations. It is often appropriate if a group is going to be managing staff, land, contracts and / or large amounts of funding. A company limited by guarantee is an incorporated organisation. This means that it has a separate legal identity distinct from that of its members.

### Types of Company

There are two types of limited company:

#### Company Limited by Shares

In a company limited by shares members (shareholders) invest money in the hope of gaining profit. This kind of company is generally found in the commercial sector

#### Company Limited by Guarantee

In a company limited by guarantee there are no shareholders and any profits are re-invested in the company. All members would guarantee to pay a nominal sum (usually £1 and almost always no more than £5) should the organisation become insolvent. This is appropriate for organisations which aim to pursue some social or political cause. Groups can write their own objectives or can choose a more structured approach such as becoming a Community Cooperative. If a group also wants to become a charity there are also certain restrictions on the actually objects they can pursue (see below for further information about becoming a Charity)

### Further reading:

G3 - Company Status: Advantages and Disadvantages

