

Module 5 - Social Enterprise Boards

Understanding the roles, responsibilities and legal status of Board Members

Context to Module 5 - Social enterprise boards

Welcome to Module 5 of the 'Becoming a social enterprise: essential business understanding for VCS Boards' learning materials. This introductory section explains the structure of the modules, who these materials are intended for, and who will be learning from them. There is also a key to the symbols used in the modules to aid facilitators.

Structure of the modules

There are five modules in total, each focussing on a separate issue of becoming a social enterprise. The modules are independent from each other, and do not need to be taught in sequence.

Each module follows the same format: an introduction page to the module, the four topics which make up the module, and a summary at the end which includes a learning checklist and further information resources. After the summary are the reference sheets for the learners, which include a brief synopsis of the entire module and further information resources, as well as any additional learning materials.

Who should use these materials

The aim of these materials is to give Board Members of Voluntary Community Organisations (VCOs) an understanding of business practice, and help them guide their organisation as it becomes a social enterprise. The materials are designed for trainers who will be facilitating Board Members' learning sessions.

Who will be learning from these materials

These materials will help Board Members who have little or no experience in business, or who wish to update their understanding and awareness of business. The materials are not designed to provide hard business skills – they will instead give an insight into all the business areas that a VCO will encounter as it becomes a social enterprise. Board Members of any size VCO will benefit from the learning sessions, but they are specifically aimed at Boards of small and medium organisations – local or regional organisations, employing up to 25 staff and with an income of anything from £50 to £500,000. For information about why such organisations are becoming social enterprises, please see the 'Understanding and Using the Materials' pdf.

Key to learning symbols used



Question(s)



Exercise



Answer(s)



Stop & Think



Case Study

These training materials were developed and produced by Governance Works Ltd on behalf of the Small Business Service, Social Enterprise Unit.

Introduction

People become Board Members for many different reasons, and via many different routes. Consequently, Board Members' understanding of the exact nature of their roles and responsibilities can vary greatly. These differences of perception will be even more evident during times of change within the organisation, and so as a VCO becomes a social enterprise it is crucial that all Board Members have a very clear understanding of their roles, responsibilities and legal position within the organisation.

This module is split into four sections:

1. Legal structures and legal statuses for social enterprises
2. Key stakeholders
3. Restrictions and regulations for Boards
4. Duties of Boards and potential liabilities

Learning outcomes

By the end of this module, you will be able to:

- Describe the main legal frameworks that are used by VCOs and businesses
- Understand the changes in relationships that can occur with key stakeholders as a result of becoming a social enterprise
- Explain the roles and responsibilities of the Board in a social enterprise

List the potential liabilities and risks associated with trading

Glossary:

Limited liability – liability that is limited to a partner or investor's investment. Shareholders in a corporation or in a limited liability company cannot lose more money than the value of their shares if the corporation runs into debt, as they are not personally responsible for the corporation's obligations.

Governing body – the group of people who have legal responsibility for the proper management of the organisation and its resources - the Board Membership

Governing document – the official, written set of regulations that govern how the organisation is run.

Shareholder – someone who has financed the business and expects to get a return on that investment.

Acronyms:

CIC – Community Interest Company

CIO – Charitable Incorporated Organisation

VCO – Voluntary and Community Organisation

VCS – Voluntary Community Sector

Topic 1: Legal structures and legal statuses for social enterprises

1.0 Legal statuses of social enterprises

The legal status of a VCO is critical as it becomes a social enterprise, and Board Members need to understand that it is liable to change - what may have been suitable for a grant-aided organisation in the past may not be suitable for the organisation as it becomes self-sufficient.


For example, charitable status can be of great benefit when trying to raise money from grant-giving trusts or the private sector, but it can restrict an organisation's capacity to trade freely and exploit its assets to the full. Likewise, constitutional accountability to the local community can be an advantage when seeking grants, but may not always produce the best form of governance for delivering contracts efficiently.


Most social enterprises will rely on a mix of grants and trading activities for a significant length of time. Consequently many social enterprises adopt a dual legal structure – often a charity with a subsidiary trading company, or a community-based organisation sponsoring and running alongside a co-operative. Therefore, if an analysis of the best structure for your organisation yields two different conclusions, a dual structure is likely to be the eventual outcome.

1.1 Legal structure: governing documents, governing bodies and memberships

There are three essential elements to an organisation's legal structure:

- a) The governing document
- b) The governing body
- c) The membership

 How would you define the governing document and the governing body?


 Sample answers:


a) The governing document is the official, written set of regulations that govern how the organisation is run.

b) The governing body is the group of people who have legal responsibility for the proper management of the organisation and its resources - the Board.

Both of these might also be known by some other name, depending on the legal status of the organisation. Common examples of alternative names:

| Status of organisation | Name commonly given to governing document | Name commonly given to governing body |
|--------------------------------------|---|---------------------------------------|
| Unincorporated association | Constitution | Management Committee |
| Simple trust | Trust deed | Board of Trustees |
| Company | Memorandum & Articles of Association | Board of Directors |
| Industrial & Provident Society (IPS) | Rules | Committee (of Management) |

 Because every charity, whatever its underlying legal status, is a form of trust, the governing body of any charity may be known as the “Board of trustees” and this is the terminology invariably used by the Charity Commission. Members of the governing body of a charitable company limited by guarantee, for example, are simultaneously company directors and charity trustees.


 What is the form of your organisation’s governing document – and do all Board Members have a copy?


What name do you give to the governing body?

What type of charitable status, if any, does your organisation have?

c) Membership

The ‘governing body’ (called in this module the Board) manages the affairs of the organisation, and the ‘membership’ are who the Board report to. By ‘member’ we mean a person (or body) who holds certain constitutional rights in that organisation – in particular, voting rights at general meetings.

 What fundamental rights do Members typically have? What can they typically vote for at general meetings?


 Sample answers:

- ✦ Amend the governing document
- ✦ Appoint / reject members of the governing body
- ✦ Approve / reject the annual report and accounts prepared by the governing body
- ✦ Appoint / remove the auditor
- ✦ Wind up the organisation

Private sector – members

In the conventional private sector, the members of a business are usually shareholders.

 What is a shareholder?

 A shareholder is someone who has financed the business and expects to get a return on that investment. The members/ shareholders have the right to make decisions by voting as a result of their investment - the Board is essentially spending the members’ money, and so must account its actions to the members at least once a year (at the Annual General Meeting).

VCO – members

In the voluntary and community sector, members of an organisation generally do not have a financial stake in that organisation, except perhaps the payment of a small subscription. However, they provide accountability for the governing body and may reflect the interests of other valid stakeholders – e.g. users of the services (clients). Members are frequently self-selecting, in that those who are members have asked to become so.

Social Enterprise – members

In the social enterprise sector, you may encounter either type of member (investing or non-investing), or even hybrids of both types. This is one of the major differences that Boards of social enterprises will need to understand.

Some social enterprises may dispense with having members beyond the Board itself if, for example, there is no obvious stakeholder group from which to draw a membership. However, in other cases – especially co-operatives – the membership of the organisation is at the core of its whole nature and reason for existence.

A review of the membership structure of an organisation should accompany any major shift in that organisation's method of operating. What may have been suitable for grant-reliant regime may not be so appropriate for a trading enterprise, and there may be new stakeholders who need to be offered membership rights.

Non-constitutional membership

Confusion can sometimes arise when an organisation uses the term 'member' to mean someone who is really just a customer paying for a service, such as a member of a library or someone who receives an organisation's newsletter. However these people are not voting members of the organisation, and are referred to in these materials as 'clients' or 'customers'. Please see Module 3, page 5 for more information on clients, customers and markets.

1.2 Legal structure: governing documents, governing bodies and memberships

Board Members need to understand the opportunities and restrictions that different legal statuses offer. Nearly all voluntary and community organisations will have adopted one of the following types of legal status:

a) Unincorporated association

This is the most informal structure for not-for-profit activities, and a common starting point for voluntary and community groups. The association is created by the adoption of a constitution, a set of rules that set down the association's purpose, criteria for membership, and procedures for appointing or electing members of the governing body (often called the 'management committee'). The organisation has no legal identity of its own and any liabilities or contracts held by the association are the personal responsibility of the management committee. Associations are generally unregulated, unless registered as charities.

b) Simple trust (unincorporated)

An arrangement whereby one person (the donor) hands over money or other assets to intermediaries (the trustees) who must manage those assets on behalf of specified people (the beneficiaries). A trust may be private (for a restricted group of beneficiaries) or public (for the public generally or some section of it). Public trusts are almost invariably registered as charities. Any debts or liabilities arising are the personal responsibility of the trustees.

c) Company limited by guarantee

A company limited by guarantee is a corporate body, so it has a legal identity separate from its members. It may hold property, sue and be sued, and enter into contracts in its own name. Members contribute a fixed amount to the company's debts should it become insolvent – often a nominal £1 – which is the limit of their liability. Most companies limited by guarantee are non-profit-distributing, and as a result it is the most common choice of corporate body for charities, voluntary organisations and social enterprises. A company limited by guarantee may qualify for registration as a charity or as a Community Interest Company.

d) Industrial & provident society (community benefit society)

Like a company, an industrial & provident society (community benefit society) has a legal identity separate from its members, and may hold property, sue and be sued, and enter into contracts in its own name. It must carry on a trade, business or industry for the benefit of the community, and people become members by purchasing shares – while these will often be nominal and worthless £1 shares, some societies can issue up to the statutory maximum (currently £20,000 per member). The personal liability of members is limited to the value of their shares. Shareholders may receive a limited return on their investment in the form of interest.



What is the legal status of your own VCO?

In the social enterprise sector we rarely find the first two on the list, because they are unincorporated structures and therefore do not provide limited liability for their members. As trading inevitably involves a greater level of risk than simply spending grant funds, very few trading organisations will choose to remain unincorporated.

The legal status of organisations can be further sub-divided:

| Primary type of legal status | Sub-divisions |
|--------------------------------|---|
| Unincorporated association | None |
| Simple trust | None |
| Company | Private company limited by guarantee |
| | Private company limited by shares |
| | Public limited company or PLC (limited by shares) |
| Industrial & provident society | Community benefit society |
| | Co-operative |

Community Interest Company

The Community Interest Company or CIC (pronounced 'kick') is a new company structure introduced in 2005. It provides businesses working primarily for a social purpose with the option of a simple off-the-peg legal form.

CIC status indicates that the applicant has made a community interest statement identifying who the company intends to benefit and in what way. An asset lock means the company's assets (including surplus profits) must be used for the benefit of the community it was set up to serve, or if transferred to a third party for another purpose then full market value must be attained. An annual report ensures transparency of operation, informing the CIC Regulator and the general public of what has been achieved by the money generated throughout the year. Regulation is 'light-touch' and less restrictive than that applying to charities, as CIC status is intended for entrepreneurial, business-orientated, not-for-profit enterprises.

CIC status is only available to organisations that have registered under the Companies Act (and are therefore either private companies limited by guarantee or by shares, or public companies). Start-up companies can register as CICs at the same time as they register their new company with Companies House.

It will not be possible to hold dual status as a charity and as a CIC. At present, there are no tax or other advantages proposed for CICs. The regulation of CICs is intended to reassure potential funders and other supporters that the assets of the CIC will be locked into its social objectives indefinitely and cannot be siphoned off by members or others.

1.3 Charitable status



What type of charitable status, if any, does your organisation have?

It is impossible to be 'just a charity' in legal terms. An organisation will be an unincorporated association, a simple trust, a company limited by guarantee or a community benefit society, and then secure charitable status as evidence of the public-benefit nature of its activities and structure.

Charitable status is not available to every organisation in the voluntary, community or social enterprise sectors. An organisation must satisfy two primary criteria to qualify:

- a) Its purposes and activities must be amongst those that have been ruled to be charitable in law.
- b) Its governing document and manner of working must feature certain safeguards and restrictions to protect its assets and its public benefit nature.

Charitable status provides practical advantages: exemption from certain taxes, reduced business rates, some tax incentives to donors, access to funds that are unavailable to non-charities, and a general positive public image.

In return for these privileges, charities are regulated to ensure that they remain true to their public benefit nature and stated purposes, and that their income and assets are protected from abuse. In particular, there are certain rules about trading which may need to be taken into account when moving from grant dependency to income generation.

Most charities in England and Wales are 'registered charities' - their details are held on a central register held by the Charity Commission and they are subject to the regulation of the Commission, which has significant powers to intervene in the affairs of registered charities.

Some charities however, are exempt from the Charity Commission registration but still enjoy the same fiscal privileges. Although the rules are the same for these types of charity, they are not so actively regulated.

Charitable Status

| Legal status | Type of charitable status available |
|--------------------------------------|-------------------------------------|
| Unincorporated association | Registered charity |
| Simple trust | Registered charity |
| Private company limited by guarantee | Registered charity |
| Private company limited by shares | None |
| Public limited company | None |
| IPS community benefit society | Exempt charity |
| IPS co-operative | None |



The regulation of charities in Scotland and Northern Ireland is slightly different. Northern Ireland does not have a Charity Commission, while the equivalent body in Scotland is the Office of the Scottish Charity Regulator.

The Charities Bill, if and when enacted, will remove the status of exempt charity from IPS community benefit societies (except for registered social landlords), and they will have to register with the Charity Commission.

Topic 2: Key stakeholders

2.0 Introduction


A major part of the Board's responsibilities is to effectively manage relationships with a wide range of stakeholders. As a VCO develops as a social enterprise, it may find that relationships with key stakeholders change – particularly with members, employees, volunteers, clients and customers. A comprehensive chart of all possible interested parties is provided at the back of the section, for reference.


2.1 Members

The members of an organisation are its owners, regardless of whether or not they have a financial stake in it, as explained on page 6 of this module. As a result, members play a vital role in governance, electing and monitoring the governing body, and are able to prevent the organisation from making drastic changes of direction or policy if they so wish.

Many funders of VCOs take an interest in the membership structure precisely because of the accountability factor. They want to know that someone is keeping an eye on the people to whom they are entrusting their funds.

However, if an organisation is no longer simply spending public or charitable funds but is earning income through delivering contracts and paid-for services, the situation of the members may change. An active and volatile membership can result in sudden changes – for example, the Board can be voted out and a new one elected because of some internal disagreement over policy. Such volatility may not be helpful for the consistent delivery of the services which a contract is likely to demand. Consequently, in the social enterprise field there is a school of thought that considers a voting membership is only desirable when there is a clear reason for having one; although for others, some sort of democratic membership structure is integral to the idea of social enterprise.

 **What are reasons for having a membership in a trading social enterprise?**

 **Sample answers:**

- ❖ Some funders may still require a demonstration of accountability if they are providing some grant aid to the social enterprise.
- ❖ Any organisation that trades on its accountability to a particular community may need to draw a membership from that community to have any credibility. A legitimate claim to be accountable to, say, the local community can be a powerful marketing tool in some fields.

- ❖ If a co-operative structure is adopted, the organisation will need members; co-operatives are inherently member-based organisations.
- ❖ Some social enterprises want to raise capital through equity. This will result in investors becoming voting members of the organisation. (See module 4 for more information)

Think about your own organisation as it is undergoing change:

Who are your members?

What exactly is their contribution to the organisation and its social objectives?

What qualifies them to have ownership of this organisation?

Are they the right members?

2.2 Employees

The duties of the Board towards paid employees won't really change as a result of changing from a grants-based income to a trading/contract-based income. However, there could still be some noticeable changes for employees in terms of how they are employed.

What changes might employees notice as a VCO becomes a social enterprise?

Sample answers:

- ❖ Open-ended contracts instead of fixed-term staff contracts related to grant income
- ❖ Profit-related pay for employees

Are the terms and conditions on which you employ staff appropriate for a future of income generation through trading and contracts?

Do the employees have the appropriate skills and knowledge for working within a trading organisation? (Will they need to be trained or will additional employees need to be appointed?)

2.3 Volunteers

What problems could emerge regarding volunteers as a VCO starts trading?

Sample answers:

- ❖ While paid staff can be disciplined if they fail to perform, naturally volunteers cannot be required to do more than they choose.
- ❖ Volunteers who were quite happy to give their services for free might feel differently with the knowledge that somebody is essentially paying the organisation for the volunteer's contribution.

Are there any solutions to these issues? Some organisations may choose to offer volunteers better 'perks' – perhaps meals or travel allowances – and in return require a commitment from them to deliver a certain volume of volunteer labour. However, this could be a dangerous route to follow. There have been cases where 'volunteers' have been judged by the courts to be employed because of the contractual nature of the relationship. Generally speaking, if someone is required to work in return for some material benefit, it is likely they will be considered to be employed and therefore eligible for certain employees' protections, such as the minimum wage.

The reality for most social enterprises is likely to be that they cannot rely on volunteer labour to any extent if they are selling services or delivering contracts, with the exception of the governance structure itself – volunteer Board Members.

Do you intend to use volunteers in the delivery of contracts or paid-for services?

If so, what measures do we need to take to ensure consistency of service?

Can the availability of volunteer labour be guaranteed?

Can the required quality of output and performance be guaranteed?

Can the organisation continue to offer the required level of support, management and supervision?

2.4 Customers and clients

The financial relationships in a grant-aided voluntary organisation are those of a conventional trust.

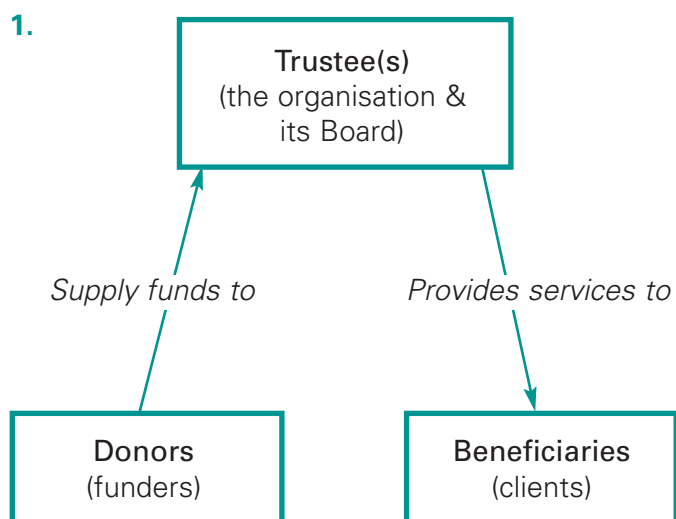
This is an arrangement whereby one party (the donor) provides money or resources to a second party (the trustee or trustees) which must be used to provide benefits for a specified third party (the beneficiaries).

Financial relationship 1: conventional trust

The trustees are, in practice, the Board Members of the organisation that is receiving and distributing the funds. Some such organisations will use the word 'trust' in their title, especially when they are registered charities, but the relationships are the same whatever the terminology used.

In a trust situation such as this, the trustees have a primary responsibility to the donors, to honour their wishes with regard to how the funds are used. The beneficiaries will not usually have a direct contractual relationship with the trustees that they can enforce; they are reliant on the donors to take action if the trustees don't meet their obligations.

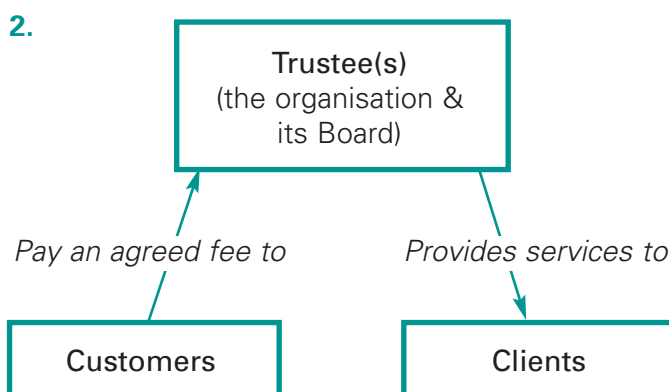
If the organisation misuses the funds with which it has been provided, it is guilty of a breach of trust. Particular care needs to be taken to ensure that funds donated for one specific purpose are not used to subsidise some other activity or cost centre.



Financial relationship 2: social enterprise

When an organisation moves from being financed by grants to being financed through contracts and SLAs, the situation may not appear to change very radically, although the terms will change.

However, the funds being provided under the SLA are now done as part of a contract, not on the basis of trust. If the organisation fails to meet its obligations then the customer may be able to bring action against it for breach of contract. Once again, it is unlikely that the clients themselves will have any direct contractual relationship with the organisation.



Financial relationship 3: alternative social enterprise

Another scenario is that the organisation provides services or goods to people (or organisations) who pay the provider directly. Here the purchaser is both customer and client.

In this scenario the contract is with the client personally and the client may be able to bring action for breach of contract if the organisation does not deliver as it was supposed to.



Many organisations providing paid-for services will have a mix of these three types of funding relationships; conventional trust, social enterprise, alternative social enterprise. A project providing domiciliary care, for example, may have block contracts with the Local Authority as well as a number of private clients who pay their own bills and grants to provide free services to people with special requirements.



Who are (or will be) your customers?

Who are (or will be) your clients?

Do you hold any funds on trust – and if so, are you confident that you will continue to meet your obligations in respect of these funds?

Exactly where do or will your contractual responsibilities lie?

All Stakeholders: reference chart

All interested parties – customers, clients, funders, trustees - will have some expectations of the organisation and its Board. In addition, there are a number of statutory bodies who have their own requirements that the organisation must comply with. The table below summarises the main parties who may have an interest in what the organisation does and how it does it, with particular reference to things the Board should keep an eye on during a transitional period from grant reliance to earning its income. Not all organisations will necessarily come under the scrutiny of all the parties listed.

| Interested party | Expectation/requirement | Notes |
|---------------------|---|--|
| Members | <ul style="list-style-type: none"> ❖ Compliance with the organisation’s governing document, in particular regulations regarding general meetings ❖ To be consulted on major policy issues ❖ Usually, to elect all or a majority of the Board | <p>Members should be consulted if any changes to a VCOs source of income are likely to affect the character of the organisation and what it does.</p> <p>The membership profile during the VCOs grant-dependant era may not be the same as that which will suit its revenue-generating period.</p> <p>Equally, the members may decide that the people who were suitable to serve on the Board for one way of working may not be the same as are required for another. Specifically, they may want to appoint more people with business-related skills.</p> |
| Other Board Members | <ul style="list-style-type: none"> ❖ That all Board Members will pull their weight and discharge their duties as effectively as possible ❖ That they won’t be put at unreasonable risk by the way the organisation operates | <p>In the event of the organisation ever being seriously in breach of its requirements, statutory or contractual, it is likely to be the Board who find themselves in the firing line.</p> <p>A major change in the way that it relates to customers, clients and funders may make such inadvertent breaches more likely because the territory is unfamiliar.</p> <p>All Board Members should therefore take seriously their duties, in particular the duty of care and their fiduciary duty.</p> |

| Interested party | Expectation/requirement | Notes |
|---------------------------|--|--|
| Employees | <ul style="list-style-type: none"> ❖ Compliance with the contract of employment that exists between each worker and the organisation ❖ Compliance with employment legislation including equal opportunities issues ❖ Confidentiality regarding personal matters ❖ Support and guidance to help them do their job ❖ Career development opportunities | <p>A major shift in the way an organisation works can appear as a threat to workers who have been used to a different regime.</p> <p>They may feel their jobs are less secure when the organisation's income derives from unpredictable sales income rather than guaranteed grants.</p> <p>However, it can also be a time of great opportunity, with the chance to develop and use new skills, and the potential to improve staff terms and conditions through making the organisation commercially successful.</p> |
| Volunteers | <ul style="list-style-type: none"> ❖ Compliance with any agreement that exists between volunteers and the organisation ❖ Confidentiality regarding personal matters ❖ Support and guidance and the opportunity for personal development | <p>An organisation that has regularly made use of volunteers may decide that this will be less appropriate in a context of contracts and customer expectations.</p> <p>Thought needs to be given to ways in which volunteers may be re-deployed or let go.</p> |
| Grant funders/donors | <ul style="list-style-type: none"> ❖ That the service the funder is paying for is of a high quality and achieves its social objectives ❖ That their funds are managed properly, spent carefully, and accounted for ❖ The funds are not diverted for purposes other than those for which they were given | <p>It is possible, though not inevitable, that some funders will have concerns about an organisation that starts to trade for its income.</p> <p>They may feel this puts their funds at risk – if the organisation should become insolvent, their funds may be used to settle creditors' outstanding debts.</p> <p>There may also be concerns that grants will provide hidden subsidies to trading activities that are not fully viable (e.g. by covering an undue proportion of overhead costs).</p> <p>One common solution here is to create a separate legal entity for the trading or contract work.</p> |
| Contractors/commissioners | <ul style="list-style-type: none"> ❖ That the service provided under contract is of a high quality and achieves agreed outcomes ❖ That the organisation retains the capacity to deliver the service | <p>Organisations used to dealing with grant-givers may find the attitudes of contractors and commissioners to be rather different.</p> <p>These issues are dealt with in module 3.</p> |

| Interested party | Expectation/requirement | Notes |
|----------------------------------|--|--|
| Customers/clients | <ul style="list-style-type: none"> ❖ That goods and services are of an acceptable quality and are as described when the sale was agreed ❖ That the organisation has some sort of follow-up facility to deal with complaints or queries about the product or service | <p>Paying customers have significant rights under the law and attention must be paid to respecting these rights.</p> |
| Charity Commission | <ul style="list-style-type: none"> ❖ That the organisation abides by both trust law and charity law, and the Commission's own regulations on such matters as trading ❖ That the trustees don't take undue risks with money and assets acquired from donors ❖ That the beneficiaries get the maximum possible benefit from the charity's resources | <p>There are quite complex rules governing the extent to which charities may trade and any charity moving into revenue generation needs to understand and abide by these.</p> <p>These rules are summarised later in this module.</p> <p>It is commonplace for charities to establish trading subsidiaries if they want to exploit a commercial opportunity that is prohibited to charities or considered too risky.</p> |
| HMRC (formerly Inland Revenue) | <ul style="list-style-type: none"> ❖ That all organisations pay any taxes that are due | <p>Whereas organisations may have been used to tax exemption on income from grants, any surplus generated from trading or contracts is liable to be assessed for corporation tax (unless the organisation is a charity). This often comes as something of a shock to the unprepared.</p> <p>Even where the organisation is a charity, the Inland Revenue have their own rules about trading and tax exemptions which must be understood in addition to the commission's rules if penalties are to be avoided.</p> |
| HMRC (formerly Customs & Excise) | <ul style="list-style-type: none"> ❖ That organisations required to register for VAT do so and collect the tax from their customers | <p>Most activities which involve a payment being made for goods or services are classed as "business activities". When income from business activities reaches a certain threshold, VAT registration is obligatory.</p> <p>Being registered for VAT involves a lot of additional record-keeping and paperwork, and requires the organisation to add up to 17.5% tax to its normal charges – which can be significant, especially when selling services directly to clients.</p> <p>However, VAT-registered bodies can also claim back VAT they spend on their supplies and sometimes this results in a net financial gain for the organisation. VAT is a complex subject and advice should be sought before trading activities are commenced on any scale. There are stiff penalties for non-compliance.</p> |

| Interested party | Expectation/requirement | Notes |
|--|---|--|
| Financial Services Authority | <ul style="list-style-type: none"> ➤ To regulate financial services and protect the public | <p>The FSA is most likely to get involved with a social enterprise if it wishes to offer shares or other securities to the public. Professional advice will be needed before undertaking anything of this nature.</p> <p>All organisations registered under the Industrial & Provident Societies Acts (co-operatives and community benefit societies) are regulated by the FSA. Accounts and annual returns must be submitted to the FSA and a periodic fee paid.</p> |
| Companies House (Dept of Trade & Industry) | <ul style="list-style-type: none"> ➤ That registered companies comply with their statutory obligations with regard to the transmission of information to Companies House | <p>All companies must supply certain information to Companies House on a regular basis and pay an annual fee. Companies House will not be concerned with a change in a company's means of acquiring income provided the annual accounts have been prepared correctly.</p> |
| Bankers | <ul style="list-style-type: none"> ➤ That the organisation manages its accounts properly ➤ To provide financial services in return for a fee | <p>The VCOs bankers should not be directly concerned with a change in the way that the organisation generates its income. However, if a separate legal vehicle is created (such as a trading subsidiary) the bank may wish to treat this as a commercial account even if it has been offering special terms to the parent organisation on the grounds of its charitable status or similar.</p> <p>A trading organisation is more likely to consider taking out loans or overdrafts than one financed entirely by grants, and the bank will need to be persuaded with regard to such matters as security. They may even ask for Board Members to guarantee any loans, not something to be entered into lightly (if at all).</p> |
| Community Development Finance Institutions | <ul style="list-style-type: none"> ➤ CDFIs provide finance for economic activities that are of benefit to the community | <p>A move to contract and trading income is frequently accompanied by a need for investment capital – to acquire a building, invest in stock, business set-up costs or just for working capital.</p> <p>There are a growing number of not-for-profit CDFIs that specialise in financing social enterprise start-ups and expansions, generally through sympathetic loans that do not require personal guarantees.</p> <p>Grant-aided bodies will often not have come into contact with the CDFI sector before and may need to become familiar with it.</p> |

| Interested party | Expectation/requirement | Notes |
|---------------------------|---|--|
| Competitors | <ul style="list-style-type: none"> ❖ Not to lose business to your organisation | <p>Not everyone may welcome your organisation's entry into contracts and trading. Every contract, commission or customer that you acquire is one lost to another provider. Provided an organisation plays by the rules, there is not much competitors can do except to try and win work by offering a better service and/or a better price.</p> <p>However, if an organisation does not play by the rules, competitors may turn nasty – for example, if misleading claims are made for advertising or marketing purposes, or if a charity engages in trading that is beyond permitted limits.</p> <p>Module 3 has more information on competition.</p> |
| Inspectors and regulators | <ul style="list-style-type: none"> ❖ That the organisation complies with regulations | <p>Most industries have their own rules and regulations, and some require specific licences and permits.</p> <p>Any major change in an organisation's activities should trigger research into any additional rules or regulations applying to the new area of endeavour.</p> |

For more information about stakeholders and their role in a social enterprise, please see **Module 1 page 9**.

Topic 3: Restrictions and regulations for Boards

3.0 Introduction

Changing from a grant-funded organisation to a social enterprise brings with it different legal restrictions and freedoms, which Board Members will need to take into account when planning changes.

General degree of regulation for types of organisation

| Unregulated | | Heavily regulated | | |
|--|--|-------------------|-------------------------------------|----------------------|
| Non-charitable associations and trusts | Companies and IPSs that are neither charities nor CICs | Exempt charities | Community Interest Companies (CICs) | Registered charities |

Degree of freedom in spending income

| Free | | Restricted | |
|--|------------------------------|----------------------|--|
| Associations, trusts, companies and IPSs that are neither charities nor CICs | Community Interest Companies | Registered charities | |



An organisation may have additional restrictions as a result of its governing document or conditions of specific funds.

Rewarding Board Members

As organisations become self-sufficient they may wish to reward Board Members for their contributions to the social enterprise. This may be in the form of an allowance or honorarium, and may be occasional – such as session fees for a Board member who now and then delivers training events for the organisation – or regular, such as when an employee becomes a full voting member of the Board.

How free organisations are to reward or pay Board Members

| Free | | Restricted |
|--|--|----------------------|
| Companies and IPSs that are neither charities nor CICs | Associations, trusts, Community Interest Companies | Registered charities |



Make a note of where your own organisation fits on these sliding scales.

3.1 Charging for goods and services

People with a background in the grant-aided voluntary sector sometimes believe that being 'not-for-profit' means that it is unlawful to charge people for goods or services, especially if the organisation is also a charity. This is not true. There are some restrictions placed on the extent to which charities can trade and charge, but these are not as extreme as is commonly thought. Non-charities face almost no restrictions on the extent to which they may engage in trading activities.

There are six main types of trading allowed to charities:

1) Primary purpose trading

This means charging for the delivery of a charitable service which is covered by the charity's objects clause. For example:

A charitable arts centre (advancing public education in the appreciation of the arts) may sell tickets for dramatic or cinematic performances, and may even take a commission on the sale of works of art exhibited, provided these have been selected for their aesthetic/educational qualities and not for their saleability.

2) Ancillary trading

This is small-scale trading which is directly associated with delivering core charitable services. A charity whose functions require people to remain on its premises for some time (e.g. a community centre, theatre, or arts centre) may sell refreshments or alcohol to its users. However, such provision becomes unacceptable trading if open to members of the public who are not attending any event or activity organised by the charity.

3) The sale of donated goods

Charities are permitted to receive donations. If a donation is in the form of goods (new or second hand), a charity is allowed to 'realise' this donation, i.e. to turn it into cash. This rule permits charities to run shops, provided they deal only in donated goods, and jumble sales. They should not be buying in items for resale.

4) Trade carried out by the charity's beneficiaries

Trading is permitted where it is carried on by the beneficiaries of a charity as part of the service they are receiving. For example:

- A charity for the relief of people with learning disabilities may run a horticultural project, offering its beneficiaries vocational training and therapeutic work experience. It may then sell the resulting plants to the public.
- A café open to the public may be charitable if staffed primarily by people with special needs who are receiving training and work experience.

5) Small scale trading

Charities are permitted to engage in any kind of non-primary purpose trading, and to enjoy tax relief on the income earned, provided:

- The total turnover from all of the activities does not exceed the annual turnover limit.
- If the total turnover exceeds the annual turnover limit, the charity had a reasonable expectation that it would not do so.
- The profits are used solely for the purposes of the charity.
- The annual turnover limit is currently £5,000 or 25% of the charity's gross income if the turnover is greater than £5,000 but no more than £50,000.

6a) Fund-raising events falling within extra-statutory concession C4

This allows charities to sell tickets for special fund-raising events, such as discos, fêtes and fireworks displays.

If a charity begins to get too involved in trading activities that are not permissible then it must either stop doing them, or establish a subsidiary trading company to carry on the trade.

6b) Trading via a subsidiary

It is unlawful for a charity to subsidise its trading subsidiary (this is considered a misuse of donor's funds and thus a breach of trust), so a subsidiary must always be profitable. 'Subsidy' doesn't just mean the charity bailing out the trading company when it is in difficulties. The Board should be aware that there are a number of ways in which a charity may, even if inadvertently, be unlawfully financing its subsidiary:

- The subsidiary paying less than the market rate for premises leased or rented from the charity
- The subsidiary making use (without charge) of stationery, office furniture, computers or other material resources which have been purchased from charitable funds - the charity should be properly reimbursed for any such usage
- The subsidiary enhancing its trading performance by using intellectual property belonging to the charity, such as its name and logo. Again the charity should be reimbursed for such usage
- Staff employed by the charity doing work for the subsidiary. If employees are to undertake work for both the charity and its subsidiary – which is common – detailed timesheets should be kept so that an appropriate proportion of the employee's salary may be drawn from the two funds. If administrative staff employed by the charity are undertaking such tasks as payroll or company secretary services, the subsidiary should reimburse the charity for the value of this service



Check your governing document for additional restrictions imposed on your organisation.

Consider if your planned trading activities can be accommodated comfortably in your organisation in its present form - do new arrangements need to be considered?

Topic 4: Duties of Boards and potential liabilities

The general duties of Board Members should not be greatly affected by a move to earning income from trading or contracts. However, the degree of emphasis which each receives may well change.

The duties of Board Members are:

- Fiduciary duty
- Duty of care
- Financial management
- Employment procedures
- Good governance practices
- Risk management

4.0 Key general duties

Fiduciary duty

This is the individual's duty to act in good faith and to not make a 'secret profit' from the organisation's affairs, for example by failing to declare an interest in a contract or payment from the which the individual stands to gain personally.

Board Members are required to act in the best interests of the organisation that they are managing, and opportunities to breach this duty may increase when the organisation is buying and selling rather than receiving grants and providing free service.

The duty of care

The duty of care requires Board Members to act to the best of their abilities and to be mindful of the effects of their decisions on others, including staff, suppliers, customers, investors and the general public. The duty of care can be particularly important when it comes to watching out for the interests of creditors (people to whom the organisation owes money). In a trading situation, this is likely to have greater significance than when financed exclusively from grants.

Financial management

High standards of judgement and objectivity are needed when projected income figures are based on hoped-for sales rather than guaranteed grants. Financial management tools such as cost centre analysis (i.e. calculating the real costs and revenues associated with a particular activity or contract) will take on a greater importance in a trading situation.

While it is inevitable – and desirable – that Board Members should have a strong emotional attachment to the social objectives of their organisation, they will have to be realistic about achieving and maintaining financial viability if those objectives are to be met in the long term. This may mean taking some uncomfortable decisions.

Employment procedures

Good employment practices should be a priority, regardless of an organisation's sources of income. Pages 22 of this module discuss some of the fears that employees may have in a time of change.

Good governance practices

These may vary from one organisation to another, but should include:

- ❖ Ensuring Board Members are clear on objects, powers and constitutional provisions generally
- ❖ Proper procedures for meetings and decision-making, accurate minutes, the recording of declarations of interest
- ❖ Clear policies and practices for the operation of the organisation – ensuring these are followed and reviewed regularly
- ❖ Ensuring the availability of up-to-date financial reports
- ❖ No significant decisions being made outside formal meetings
- ❖ Ensuring meetings are quorate
- ❖ Clear regulations about payments to Board Members, including expenses



Case study:

Being There

Being there was established as a charity providing support for elderly people in a small local community such as gardening and cleaning windows. Over the years this service has developed into personal home care and 'Being There' received grant funds from the local authority to support its work.

Last year the charity has formalised its relationships with the local authority through a Service Level Agreement (SLA).

This has resulted in an expansion of its services and consequently the number of employees.

Before signing the SLA, the Board of Trustees agreed that as a trading body they needed more safeguards in the law as the new contract brought with it potentially greater liabilities, and the charity therefore registered as a Company Limited by Guarantee.

The Board recognised that in making the change to contract delivery they must review a number of key areas to check that they could manage the contract effectively and efficiently and thereby minimise the risks of being in breach of contract.



What are the key issues that the Board should address as part of this review? Concentrate on four areas: financial control, management, staffing and governance.



Sample answers:

Financial Control – Can the current systems provide sufficient detail for the organisation to monitor the financial aspects of the contract including cash flow and profit and loss?

Management – Are the current management systems sufficient to ensure effective management and control of all aspects of the contract delivery?

Staffing – Do the employees have sufficient understanding of the requirements of the contract to ensure high quality delivery and meeting the terms of the contract?

Do the staff team and individual team members have sufficient and appropriate skills to deliver the level of quality required?

Will the organisation have to introduce or change its staff training programmes?

Will the organisation appoint new or different staff members?

Governance – Does the current Board have sufficient skills, knowledge and understanding to ensure effective control of the contract and contract delivery?

Do the current systems provide sufficient detail for the Board to monitor the financial aspects of the contract on a regular basis?

4.1 Risk management in trading environments

Risk management is, at its simplest, thinking about worst-case scenarios.

Risk management is a crucial function of any governing body, but it is likely to take on added importance when trading for revenue income. This is even more important if the organisation has accepted equity investment or a loan.

Potential liabilities

Board Members will properly be concerned about the potential for liabilities that may arise for themselves or the organisation they are running.

Examples of potential liabilities:

- Criminal offence
- Breach of statutory duty
- Breach of fiduciary duty/duty of care
- Breach of contract
- Tort (Breach of duty leading to liability for damages)
- Breach of trust



Define the above terms



Answers:

Criminal offence

Actions brought by the state, generally for offences against people, property or the public interest – e.g. killing people, destroying property, inciting riots. One might hope that this will affect few social enterprises.

Breach of statutory duties

Non-criminal rule-breaking. Examples that have affected organisations in the social enterprise and voluntary sectors include:

- Failing to meet duties in respect of employees such as discrimination, health and safety, trade union membership, allowing time off for public duties.
- Allowing premises to be used for drug-related offences.
- Failing to comply with food hygiene regulations.
- Failing to comply with company law requirements, for example not submitting the annual return.

Breach of fiduciary duty / duty of care

- Making a secret profit from the organisation (failing to declare an interest).
- Misusing information obtained through one's position.
- Causing loss through mismanagement or negligence.

Breach of contract

Inevitably, this form of liability is more likely to arise in an organisation that is delivering under contract, or selling goods or services. This type of breach may involve:

- The organisation failing or being unable to pay money owed under a contract.
- Failing to provide goods or services it has committed itself to
- Goods or services supplied being sub-standard
- Breaching the conditions of a contract (e.g. failing to insure equipment when it said it would)

Tort

'Tort' comes from the French word for "wrong" and generally involves injury, loss or damage caused by negligence or malice. Tort is a civil offence where action is brought by the injured person. Examples:

- ❖ Negligence (the opposite of the duty of care), where someone gets hurt and sues for compensation
- ❖ Trespass, which includes interfering with some one's goods
- ❖ Passing off, i.e. making a misrepresentation to customers or clients that injures another supplier
- ❖ Defamation, which includes slander and libel

Breach of trust

This is only likely to arise where an organisation is in receipt of donated funds that have been given for a specific, designated purpose. Generally it involves using funds for purposes other than those they were given for, and is especially culpable if any Board Members have benefited from this.

Risk analysis

Stage 1

Draw up a graph with two axes, one reading 'likelihood' and the other 'impact', running from 'low' to 'high'. Assess the likelihood and impact of each one, and put a cross on the graph that approximates these two factors.

| | | | |
|--------|------|------------|------|
| Impact | High | | |
| | Low | | |
| | | Low | High |
| | | Likelihood | |



Now draw up a list of things which might happen and which could affect your enterprise.

For example: consider 'loss of computer data'. This might score highly on likelihood (taking the cross to the right of the graph) but low on impact, because you keep back-up copies (taking the cross towards the bottom of the graph). But maybe 'loss of key worker' would score more highly in both regards, putting the cross towards the top right hand corner.

Stage 2

Draw up a table with the headings: 'event', 'situation' and 'action'. For each worrying cross, list the event in the first column, a brief description of the present situation in the second, and the action that needs to be taken in the third.

For example, an entry for 'event' might read: 'damaging fire at the premises'. The corresponding entry for 'situation' might read: 'no fire alarm, extinguishers in need of a service'. The entry for 'action' should be obvious.

Deal with the top right hand corner of the graph first, then deal with anything that fell into the top left or bottom right.

| Event Identified | Present Situation | Action to be taken | By Whom and When |
|-------------------------------|---|---|---|
| Loss of computer data | No back up system in place for customers orders | System to be agreed and implemented | IT Officer - before the end of month – report to next Board meeting |
| Damaging fire at the premises | No fire alarm, extinguishers all in need of a service | Need checked update and new equipment obtained if necessary | Safety officer – report to next Board meeting |

Summary

VCO Board Members have important responsibilities which will change as an organisation becomes a social enterprise. Boards need to understand what is needed from them, and what new roles, responsibilities and liabilities emerge from becoming a social enterprise. In addition, Boards need to be able to notice any new skills gaps at Board or senior management level as a result of these changes, so that action may be taken to fill these gaps – either with training or by taking on new people.

Quick module checklist

? What three elements make up an organisation's legal structure?

A The governing document, the governing body, the membership

? What are the four most common types of legal status for VCOs?

A Answers:

- Unincorporated association
- Simple trust (unincorporated)
- Company limited by guarantee
- Industrial & provident society (community benefit society)

? List 3 different types of stakeholder:

A Members, employees, volunteers, clients, customers, funders, Inland Revenue, HM Customs & Excise.

? What potential problems are there with employing volunteers in a social enterprise?

A If someone is required to work in return for some material benefit, it is likely they will be considered to be employed and therefore eligible for certain employees' protections, such as the minimum wage. Also volunteers may object to the fact that somebody is essentially paying the organisation for the volunteer's contribution.

? Generally speaking, what kind of organisation is the most regulated/restricted?

A Registered charities

? Can charities trade?

A Yes, subject to certain restrictions.

? Name 2 ways charities can trade:

A Sample answers:

Ancillary trading, selling donated goods, trade carried out by the charity's beneficiaries, Small-scale trading, fund-raising events falling within extra-statutory concession C4.

? Name 3 of the duties of Board Members:

A Sample answers:

Fiduciary duty, Duty of care, Financial management, Employment procedures, Good governance practices, Risk management.

? What is risk management?

A Thinking and preparing for worst case scenarios.

What's Next?

To make the most of the module, it is important that Board Members develop what they have learnt in the module, and apply it to their roles within their organisation.



After working through this module, what do you feel have been the three key learning points for you?

What will you do with what you have learnt?

When will you do it?

Who do you need to support you?

Do you need any resources?

Do you foresee any challenges to overcome?

Further Information

The Voluntary Sector Legal Handbook by Adirondack & Taylor, DSC. Excellent all-round guide to company law, charity law, employment, property, finance, fundraising etc. Updated regularly via Sandy Adirondack's website.

Unincorporated Associations – Law & Practice by Jean Warburton, Sweet & Maxwell. The only serious attempt to bring together all case law relevant to unincorporated associations.

Information on the registration of Benefit of the Community Societies under the Industrial & Provident Societies Act 1965 Available from the Mutual Societies Registry, 25 The North Colonnade, Canary Wharf, London E14 5HS, 020 7676 9442; or in Scotland, from the Mutual Societies Registry, 58 Frederick Street, Edinburgh EH2 1NB, 0131 226 3224. Download it from www.fsa.gov.uk/Pages/Doing/Info/MSR/pdf/community.pdf

Information on the registration of Bona Fide Co-operative Societies under the Industrial & Provident Societies Act 1965 Available as above. Download it from www.fsa.gov.uk/Pages/Doing/Info/MSR/pdf/cooperative.pdf

Company Formation (or GBF1) is available from Companies House, Crown Way, Cardiff CF14 3UZ (Scotland: 37 Castle Terrace, Edinburgh EH1 2EB) or by phoning 0870 333 3636. Download it from www.companieshouse.gov.uk/about/gbhtml/gbf1.shtml Also available: Company Names, Business Names, and numerous other handy guidance booklets.

Registering as a Charity (otherwise known as CC21) is available from the Charity Commission's Distributions Officer at PO Box 392, Newton Aycliffe, DL5 6YG, or by phoning 01823 345427. Download it from www.charitycommission.gov.uk/publications/cc21.asp Lots of other guidance booklets also available on a vast range of charity-related topics.

Strategy Unit Voluntary Sector Review: Organisational Forms for Social Enterprise A background paper produced as part of the "Private Action, Public Benefit" consultation. Available at www.number10.gov.uk/files/pdf/orgforms.pdf

Social Enterprise... a Strategy for Success DTI policy document, available at www.sbs.gov.uk/SBS_Gov_files/speeches/SPE_documenta.pdf

Other resources

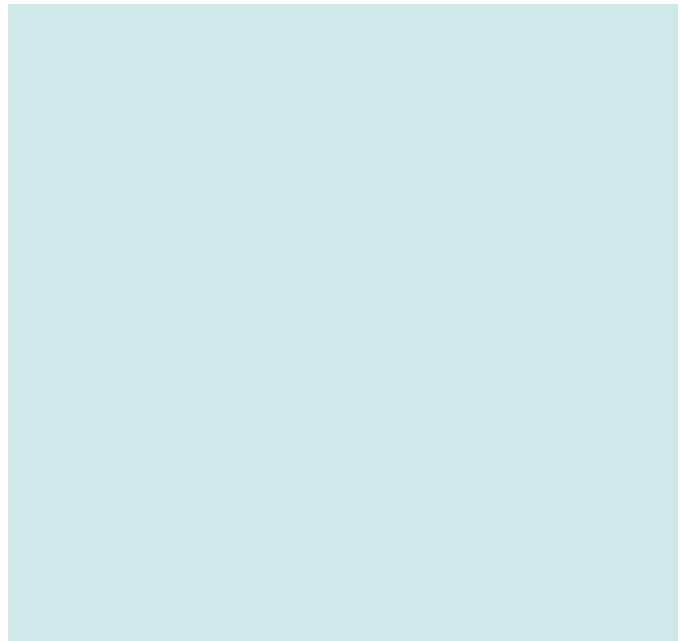
The Community Interest Company Regulations 2005 Statutory instrument 2005 No. 1788 plus copious explanatory notes. Available at www.cicregulator.gov.uk/guidance.shtml

Taxation Lots of useful stuff starts at www.inlandrevenue.gov.uk/leaflets/c10.htm

The Company Law Reform Bill Available at www.dti.gov.uk/cld/facts/clr.htm

The Charities Bill The bill and other relevant documents can be found at www.charitycommission.gov.uk/news/charbill.asp

Reference sheets
Module 5 - Social enterprise Boards:
understanding the roles,
responsibilities and legal
status of Board Members



People become Board Members for many different reasons, and via many different routes. Consequently, Board Members' understanding of the exact nature of their roles and responsibilities can vary greatly. These differences of perception will be even more evident during times of change within the organisation, and so as a VCO becomes a social enterprise it is crucial that all Board Members have a very clear understanding of their roles, responsibilities and legal position within the organisation.

This module is split into four topics:

1. Legal structures and legal statuses for social enterprises
2. Key stakeholders
3. Restrictions and regulations for Boards
4. Duties of Boards and potential liabilities

Learning outcomes

By the end of this module, you will be able to:

- Describe the main legal frameworks that are used by VCOs and businesses
- Understand the changes in relationships that can occur with key stakeholders as a result of becoming a social enterprise
- Explain the roles and responsibilities of the Board in a social enterprise

List the potential liabilities and risks associated with trading

Glossary:

Limited liability – liability that is limited to a partner or investor's investment. Shareholders in a corporation or in a limited liability company cannot lose more money than the value of their shares if the corporation runs into debt, as they are not personally responsible for the corporation's obligations.

Governing body – the group of people who have legal responsibility for the proper management of the organisation and its resources - the Board Membership

Governing document – the official, written set of regulations that govern how the organisation is run.

Shareholder – someone who has financed the business and expects to get a return on that investment.

Acronyms:

CIC – Community Interest Company

CIO – Charitable Incorporated Organisation

VCO – Voluntary and Community Organisation

VCS – Voluntary Community Sector

Topic 1: Legal structures and legal statuses for social enterprises

There are three essential elements to an organisation's legal structure:

- a) The governing document: the official, written set of regulations that govern how the organisation is run
- b) The governing body: the group of people who have legal responsibility for the proper management of the organisation and its resources – the Board
- c) The membership: those to whom the Board reports – a 'member' holds certain constitutional rights in the organisation

It is necessary to understand the opportunities and restrictions that different legal statuses offer. Nearly all voluntary and community organisations will have adopted one of the following types of legal status:

- a) Unincorporated association
- b) Simple trust (unincorporated)
- c) Company limited by guarantee
- d) Industrial & provident society (community benefit society)

Charitable status

Charitable status provides practical advantages such as exemption from taxes and reduced business rates but it is not available to every organisation in the voluntary, community or social enterprise sectors. An organisation must satisfy two primary criteria to qualify:

- a) Its purposes and activities must be amongst those that have been ruled to be charitable in law
- b) Its governing document and manner of working must feature certain safeguards and restrictions to protect its assets and its public benefit nature

Topic 2: Key stakeholders

Effectively managing relationships with a wide range of stakeholders is essential, and these relationships may well change as a VCO develops as a social enterprise. All possible interested parties must be considered:

- Members
- Other Board Members
- Employees
- Volunteers
- Grant funders/donors
- Contractors/commissioners
- Customers/clients
- Charity commission
- HMRC (formerly Inland Revenue)
- HMRC (formerly Customs & Excise)
- Financial Services Authority
- Companies House (DTI)
- Bankers
- Community development finance institutions
- Competitors
- Inspectors and regulators

Topic 3: Restrictions and regulations

Changing from a grant-funded organisation to a social enterprise brings with it different legal restrictions and freedoms, which need to be taken into account when planning changes.

There are some restrictions placed on the extent to which charities can trade and charge; non-charities face almost no restrictions on the extent to which they may engage in trading activities. Their main types of trading allowed to charities are:

- 1) Primary purpose trading
- 2) Ancillary trading
- 3) The sale of donated goods
- 4) Trade carried out by the charity's beneficiaries
- 5) Small scale trading
- 6) Fund-raising events falling within extra-statutory concession C4
- 7) Trading via a subsidiary

Topic 4: Duties of Boards and potential liabilities

The general duties of Board Members should not be greatly affected by a move to earning income from trading or contracts. However, the degree of emphasis which each receives may well change. Key general duties include:

- Fiduciary duty
- The duty of care
- Financial management
- Employment procedures
- Good governance practices
- Risk management

Risk management

Risk management is a crucial function for any governing body, but is likely to take on added importance when trading for revenue income. This is even more important if the organisation has accepted equity investment or a loan. A concern for any organisation and its Board Members are the potential liabilities. Examples are:

- Criminal offence
- Breach of statutory duty
- Breach of fiduciary duty/duty of care
- Breach of contract
- Tort
- Breach of trust

Summary

VCO Board Members have important responsibilities which will change as an organisation becomes a social enterprise. Boards need to understand what is needed from them, and what new roles, responsibilities and liabilities emerge from becoming a social enterprise. In addition, Boards need to be able to notice any new skills gaps at Board or senior management level as a result of these changes, so that action may be taken to fill these gaps – either with training or by taking on new people.

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