

High Peak CVS – Digital Umbrella



Main theme: When to set up a trading arm, Non-mission related trading

Digital Umbrella is a web-design project that forms part of High Peak CVS in Derbyshire. The project evolved from internet support service the CVS was providing to member organisations and provides a valuable revenue stream for the organisation. Martin Thomas, a trustee of High Peak CVS and a member of Digital Umbrella's steering committee, explains how the project has developed over time...

"The CVS is about promoting sustainability and providing support and resources to the community and voluntary sector in High Peak. The whole website design business came about because Tony Okotie, who was then the lead on information for the CVS, secured grants and contracts for us to provide I.T training and develop two websites for two government agencies – the Home Officer and Capacity Builders. Interest and demand from VCS organisation grew which was resulted in the development and expansion of the project."

"We provide web designs services predominantly for voluntary and community organisations and social enterprises, but also for statutory services such as libraries and affordable house, and occasionally for small/medial businesses. We work with a number of partners and can provide very sophisticated website that provide a platform for organisations to showcase their services. We don't compete in the under £500 market for basic websites, instead providing customers with website that allow them to maintain their own content and incorporate multimedia elements such as video."

"When Tony Okotie, who had been the lead for Digital Umbrella, moved on, we have to re-organise ourselves and engages in a number of meeting with our staff. That led us into an analysis of what we were doing and what we were actually being paid to do. There was a conflict between CVS activities and the

website design work. It was decided that the two employees that were working on website development full time needed to be separated from the constant stream of request for general IT support from member organisations. We needed to free up capacity so they could provide CVS members and external clients with websites that could be designed and delivered promptly."

"It just evolved this way - we didn't set out to create a business, but eventually we realised that we had created a social enterprise. We found that in spite of the recession there was strong demand from non-profit organisations that wanted to trade with a social enterprise rather than a commercial web developer. At the beginning of 2009 we created a separate business plan and developed our branding by creating an independent website for Digital Umbrella."

"Digital Umbrella provides a number of benefits for High Peak CVS. First the web design service enables the sector we support to promote their causes. We are also practicing what we preach in that though our sustain project we encourage organisations to diversify their income away from grant reliance. Financially, in the short term, Digital Umbrella is helping sustain two of the CVS' management post; in the longer term the plan is that Digital Umbrella's profit will help fund the CVS' development support to frontline organisations."

Although Digital Umbrella has provided High Peak CVS with valuable trading revenue, Martin Explains that there have been challenge along the way...

"We have made mistakes; we used to manage the business on the back of an envelope, now we have systems that allow us to manage our personnel and make sure we have the right number of people for our workload. On the technical side of the business we have also developed a common way of working. In the past, different people were working in slightly different ways and

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that caused problems. Now we have developed a common approach and become wise technically.”

At present Digital Umbrella is part of the High Peak CVS charity but there are plan to turn in into a trading subsidiary...

“we have are conscious that people trade with us because they see us an organisation that shares their values and we have no intention to move away from that to become a commercial organisation. However, what we do need to do for tax and legal reasons is to move the business into a separate limited company. Once a certain amount of our trading revenue comes from activities that we are not related to the primary purpose stated in our objects, we have to pay corporate tax. If we make Digital Umbrella a separate limited company then we can Gift-Aid any profit back to the main charity and avoid the tax liability.”

“However, if Digital Umbrella is a separate legal entity it may not be as financially sustainable. The business is not likely to make huge profits given the level of overheads it carries. As such we might prefer to pay the tax that run the risk of the business failing.”

Finally, Martin offers some advice for other organisations that we developing trading activities...

“Like many organisations we have realised that this is a time of difficult transition where grants are becoming harder to get and we need to think about our long-term future. There is an argument that Digital Umbrella is a distraction from our real purpose and so we are working to free up more of the chief executive’s time so he can focus on the future. Trading activities are important to our sustainability but they should not be allowed to take up too much of an organisation resources.”

Key lessons:

- There may be opportunities to develop trading activities from your existing

projects

- Trading activities must be defined from the onset as to whether they are primary purpose or non-primary purpose to ensure compliant with the small scale trading exemptions, the Charity Commission guidelines and HMRC
- The Memorandum and Articles (or governing document) must allow for trading and/or investment
- The revenue generate by trading activities can contribute to organisational sustainability by absorbing overheads, however any charges must be calculated on commercial rates and the entity by operated at arms length
- Separating your trading activities into a trading arm has both costs and benefits
- Be wary of ‘mission drift’ where focus on developing trading activities detracts from core organisational objectives

Legal structure: Incorporate Charity
 Main activity: Web design
 Number of employees: 10; Digital Umbrella has 3
 Turnover: £365,000
 Location: High Peak, Derbyshire
 Date formed: 2002; Digital Umbrella 2005
 Percentage of generated income: 21%
 Date written: June 2010
 Website:
www.highpeakcvs.org.uk
www.digitalumbrella.co.uk

This case study is one of a series produced by the Capacity Builders funded ‘Stepping Up To Enterprise’ project in the East Midlands.

The case studies tell the stories of voluntary or community organisations and how they moved to developing trading. The case studies are available on the website

www.oneeastmidlands.org.uk/sute.