

<b>Title: Review of Financial Thresholds in Charity Legislation</b>  <b>IA No:</b>  <b>RPC Reference No:</b>  <b>Lead department or agency:</b> <ul style="list-style-type: none"> <li>Department for Culture, Media &amp; Sport</li> </ul> <b>Other departments or agencies:</b> <ul style="list-style-type: none"> <li>Charity Commission for England and Wales (CCEW)</li> <li>Fundraising Regulator (FR)</li> </ul>	
	<b>Impact Assessment (IA)</b>
	<b>Date:</b>
	<b>Stage: Consultation</b>
	<b>Source of intervention: Domestic</b>
	<b>Type of measure: Secondary Legislation</b>
<b>Contact for enquiries:</b> <a href="mailto:charitylaw@dcms.gov.uk">charitylaw@dcms.gov.uk</a>	
<b>Summary: Intervention and Options</b>	<b>RPC Opinion:</b>

Cost of Preferred (or more likely) Option (in 2024 prices, £m)			
Total Net Present Social Value	Business Net Present Value	Net Cost to Business per Year	Business Impact Target Status Qualifying Provision
£361.7	£361.7	£-42.0	

**What is the problem under consideration? Why is government action or intervention necessary?**

Charities are subject to statutory financial thresholds that regulate the level of accounting and reporting they are required to undertake depending on their income levels. The government periodically reviews these financial thresholds to ensure the regulatory requirements remain proportionate while ensuring charities are transparent and accountable, but many of the statutory thresholds have not been updated in the last 10-18 years. The Law Commission’s 2017 report [‘Technical Issues in Charity Law’](#) recommended that the government periodically review all financial thresholds in the Charities Act 2011 (“the 2011 Act”) with a view to increasing them in line with inflation. The government accepted this recommendation.

It is also important to consider the impact of inflation on both the costs incurred by charities and their incomes. As financial thresholds can only be amended by secondary legislation, the government is best placed to consult on and make any necessary changes to financial thresholds.

**What are the policy objectives of the action or intervention and the intended effects?**

The primary policy objective is to conduct a review of financial thresholds in charity law, with a view to increasing them in line with inflation where this is deemed appropriate.

Reviewing the financial thresholds in charity law will ensure that charities are sufficiently transparent and accountable, which will help to maintain public trust. Furthermore, it will ensure that the regulatory landscape is proportionate and reduce unnecessary administrative burden on charities,

particularly small and micro organisations. Reduced regulatory burden will need to be balanced against ensuring the regulator, the Charity Commission (CC) for England and Wales, has sufficient oversight over the sector in order to do its job effectively.

**What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)**

For each financial threshold we will propose three options in the consultation: 0) do nothing, 1) increase the threshold in line with inflation dated back to when the threshold was last updated 2) A 20% increase to certain thresholds from their baseline.

Co-regulation and self-regulation are not possible in this space, however the proposed consultation will ensure that the charity sector actively contributes to the setting of the financial thresholds it operates under.

**Will the policy be reviewed?** It will be reviewed. **If applicable, set review date:** FY26/2027

Does implementation go beyond minimum EU requirements?		N/A		
Is this measure likely to impact international trade and investment?		No		
Are any of these organisations in scope?	<b>Micro</b> Yes	<b>Small</b> Yes	<b>Medium</b> Yes	<b>Large</b> Yes
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)		<b>Traded:</b> N/A		<b>Non-traded:</b> N/A

***I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.***

Signed by the responsible Minister : ..... Date: .....

## Summary: Analysis & Evidence

## Policy Option 1

**Description:** Updating the Financial Thresholds as per the commitment made in response to the Law Commission's 'Technical Issues in Charity Law' Report (2017) to review the thresholds and evaluate whether it is appropriate for the thresholds to rise with inflation.

### FULL ECONOMIC ASSESSMENT

Price Base Year 2024	PV Base Year 2025	Time Period 10 Years	Net Benefit (Present Value (PV)) (£m)		
			Low: 268.4	High: 455.0	Best Estimate: 361.7

COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	4.0	1	0.0	4.3
High	6.6	1	0.1	7.2
Best Estimate	5.3	1	0.1	5.8

#### Description and scale of key monetised costs by 'main affected groups'

Based on the 2024 Annual Survey of Hours and Earnings (ASHE), this IA conservatively estimates that the Charity Commission (CC) will incur a transitional administrative cost burden of £73,000 to produce and disseminate new guidance, as well as, provide training for staff. Each charity will also incur a transitional cost burden of £24 in time for familiarisation with changes in regulations and disseminating this information. With 170,662 charities registered in England and Wales as of (06/12/2024), the total familiarisation cost for charities will be £5,200,000. In absence of available data, the high and low estimates are based on the lower and upper quartiles of the best estimate values.

#### Other key non-monetised costs by 'main affected groups'

The UK Government and the Charity Commission (CC) are expected to incur a forgone benefit relating to reduced volume and granularity of data as a number of charities fall out of reporting scope under new thresholds. The CC relies on data to identify risks and trends in the sector. In addition, it relies on data to complete the scrutiny process which involves assessing data to see if there has been misapplication or misappropriation of charity property and to ensure it can effectively regulate the sector. All of this will be affected if the volume of data is reduced. This will have a forgone benefit and wider impact on society. This forgone benefit has not been monetised but assessed qualitatively. The impact should be fairly limited due to the small number of charities affected by the change. Nevertheless, it will represent a net reduction in data availability which will weaken the evidence base used for policy proposals as well as the risk and scrutiny process.

BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional	0	32.0	275.6

<b>High</b>	Optional	0	53.4	<b>459.4</b>
<b>Best Estimate</b>		0	42.7	<b>367.5</b>

**Description and scale of key monetised benefits by ‘main affected groups’**

Based on hourly data expressed in wage terms derived from the ASHE (2024) this IA estimates that the option to update the thresholds will equate to an average annual benefit (to those charities affected by the change in thresholds) of £42,700,000 over the appraisal period. Given the difficulties in monetising the time spent to produce a statement of accounts, which can differ drastically across the charity landscape, this represents a very conservative approach to benefit estimation. In absence of available data, the high and low estimates are based on the lower and upper quartiles of the best estimate values.

Please see **Annex A** for a full breakdown of annual benefits per threshold.

**Other key non-monetised benefits by ‘main affected groups’**

No other benefits can be reliably monetised.

<b>Key assumptions/sensitivities/risks (%)</b>	<b>Discount rate</b>	3.5
--	----------------------	-----

1. Thresholds will be updated in line with the Consumer Prices Index including owner occupiers’ housing costs (CPIH).
2. The data used to inform the analysis of the number of charities affected by potential changes to thresholds is collected by the Charity Commission (CC), largely for administrative rather than analytical purposes. Therefore, a degree of approximation has been necessary.
3. The data used to inform the analysis of the impact of changing the thresholds by updating the existing regulation is based on several assumptions including a median gross hourly wage and time costs of the following processes:
  - a. The time it takes a trustee (1.5 hours per charity) and the CC (150 hours total) to familiarise themselves with changes to the threshold and disseminate this information
  - b. Completing an Annual Return (4 hours)
  - c. Completing an Annual Report (1 hours)
  - d. Registering the charity with the CC (No change)
  - e. Completing a Solicitation Statement (1 hour)
  - f. Completing a Statement of Accounts (40 hours)
  - g. Bringing in an independent examiner (£700)
  - h. Bringing in a qualified examiner (£2600)
  - i. Performing an audit (£6,300)

**BUSINESS ASSESSMENT (Option 1)**

<b>Direct impact on business (Equivalent Annual) £m:</b>			<b>Score for Business Impact Target (qualifying provisions only) £m: -210.1</b>
<b>Costs:</b> 0.7	<b>Benefits: 42.7</b>	<b>Net: -</b> 42.0	

# Table of Contents

<b>Summary: Intervention and Options</b>	<b>1</b>
<b>Summary: Analysis &amp; Evidence Policy Option 1</b>	<b>3</b>
Table of Contents	5
2.0 Policy Rationale	6
Background	6
2.1 Evidence and Approach	9
Evidence	9
Approach	9
2.2 Costs and Benefits	10
Costs to Business	10
Costs to Government and Society	12
Summary of Costs	13
Benefits to Business	14
Benefits to Government and Society	19
Summary of Benefits	20
Summary of Costs and Benefits	20
2.3 Sensitivity Analysis	22
2.4 Option 2	22
2.5 Risks and Assumptions	27
Risks	27
Assumptions	28
2.6 Small and Micro Business Assessment & Medium-Sized Business Assessment	30
2.7 Trade and Investment Assessment	33
2.8 Competition Impact Assessment	33
2.9 Equalities Impact Assessment	33
2.10 A Summary of the Potential Trade Implications of Measure	33
3.0 Wider Tests	33
3.1 Post Implementation Review/Monitoring and Evaluation Plan	33
4.0 Annexes	34

## 2.0 Policy Rationale

### Background

1. Charity law contains a number of statutory financial thresholds, the majority of which determine the level of accounting and reporting charities are required to undertake depending on their income levels.
2. The majority of these thresholds are contained within the Charities Act 2011, which consolidated previous Acts of Parliament. Some thresholds relating to professional fundraising are included in the Charities Act 1992, and others relating to cy-près powers and *ex gratia* payments were introduced by the Charities Act 2022. The commencement of the provisions in relation to *ex-gratia* payments are currently under consideration.
3. Thresholds have been subject to periodic review in the past, but many of the statutory thresholds have not been updated since 2006 or 2009.
4. In their 2017 report 'Technical Issues in Charity Law', the Law Commission recommended that the government periodically review all financial thresholds in the 2011 Act with a view to increasing them in line with inflation. In the Government response to the report, DCMS committed to such a review every 10 years.
5. It is important to regularly review the financial thresholds to ensure the regulatory requirements remain proportionate and charities are transparent and accountable. It is particularly important to review the thresholds during periods of high inflation.
6. Table One demonstrates the current thresholds included within this impact assessment and provides a short description for reference. Not all of the thresholds under review are included in this impact assessment, either because they do not relate directly to individual charities, or because we are not intending to increase them.
7. This impact assessment does not monetise the benefits of uplifting threshold s.144(1)(b) because we are unable to get a precise figure for the number of affected charities from the CC. In particular, this would require knowing the number of charities which have an income between £250k-£1m and assets between £3.26m-£5m. However, the CC's data structure does not allow us to identify the number falling into both of these categories. Nevertheless, this is not expected to have a significant influence on the EANDCB figure.

**Table 1**

Section	Current Financial Threshold	Category	Description
133	£250,000	Accounting	Gross income threshold under which a charity may prepare cash-based accounts instead of a full statement of

Section	Current Financial Threshold	Category	Description
			accounts
145(1)	£25,000	Accounting	Gross income threshold over which independent examiner requirements apply.
145(3)	£250,000	Accounting	Gross income threshold over which certain qualification requirements to be an independent examiner will apply.
163(1)/(2)	£25,000	Accounting	Gross income threshold over which a copy of the charity annual reports must be sent to the Charity Commission if requested.
169(2)	£10,000	Accounting	Gross income threshold over which the requirement to prepare an annual return applies to registered charities.
139(2)	£1,000,000	Accounting	The gross aggregate income of a charity group over which the requirement to prepare group accounts applies.
176	£1,000,000	Accounting	The gross aggregate income of a charity group over which audit requirements apply.
30(2)(d)	£5,000	Registration	The gross income threshold over which a charity will be required to register with the Charity Commission.
Sections 144(1)(a)	£1,000,000	Accounting	The gross income threshold over which account auditing requirements apply.
Sections 144(1)(b)	£3,260,000	Accounting	The value of assets over which account auditing requirements apply.

## Opportunity

8. The financial thresholds in charity law were put in place to maintain a regulatory balance within the charity sector. An oversight of the sector is vital to maintain public trust, however regulation should be proportionate and charities, particularly smaller organisations, should not be over-burdened by unnecessary regulation.
9. The Charities Act 2011 consolidated previous legislation setting out regulatory provisions for the charity sector (the Recreational Charities Act 1958, the Charities Act 1993 and the Charities Act 2006) in order to maintain this balance. The Charities Act 2022 also set

some thresholds, mainly setting out when charities should apply to the Charity Commission to use their funds for a purpose other than the purpose originally stated, allowing trustees flexibility whilst holding them accountable for the movement of larger sums of money.

10. The Law Commission's recent review of charity law, and the current implementation of the Charities Act 2022, provides an opportunity to update the existing regulations to bring them in line with current inflation and restore the regulatory balance of the financial thresholds.

## **Rationale for Intervention**

11. This IA suggests that the rationale for intervention is to prevent regulatory failure caused by regulation which is out of date and encourages charities to comply with regulation which is burdensome and disproportionate to their size. Recalibrating the thresholds enables the government to correct for this.

## **Objectives**

12. Our objective is to reduce disproportionate administrative burdens in the charity sector in relation to regulation, so that charities can more efficiently use their resources. To achieve this, we are:

- Amending the financial thresholds in charity law so that they rise in line with consumer inflation or another marker which will be considered on a case-by-case basis in order to maintain the intended level of regulation
- Aligning the financial thresholds across charity law, and with other areas of law, creating consistency and avoiding confusion
- Aligning financial reporting with The Charities Statement of Recommended Practice (SORP) where possible
- Continuing to provide proportionate access to charity data, including their objectives, activities and accounts
- Ensuring the Charity Commission (CC), the independent regulator, maintains an oversight of the sector that is well-balanced
- Making best use of the CC's resources, ensuring resources are spent where they are necessary and delivering value for money for the taxpayer

## **Options**

13. The public consultation will propose 3 options:

- a. Option 0 - Do nothing.
- b. Option 1 - Update all thresholds in line with Consumer Price Index - Housing (CPIH). CPIH has been used as it enables the most up-to-date assessment of comparable current prices at which to set revised thresholds<sup>1</sup>

---

<sup>1</sup> However, the government is committed to ensuring that the measure of inflation used is based on expert views in the sector, thus will be using the consultation to test and refine this measure.



- c. Option 2 - Increase thresholds by 20% from its baseline, a smaller increase than an inflationary uplift to reflect that charities' incomes have risen by a lower rate than inflation and to reduce the burden on smaller charities, while still ensuring a proportionate level of data and regulation of the sector.

14. The government will take a bespoke approach to each individual threshold, considering multiple options, as well as stakeholder views.

## 2.1 Evidence and Approach

### Evidence

15. This consultation stage IA draws on a number of evidence sources to provide an indication of the potential scale of the impact of updating the financial thresholds. DCMS analysts have engaged with several businesses as part of this IA and will continue to do so through the pre-legislative scrutiny process. The government has engaged with a number of key stakeholders discussed in paragraphs 15 and 16 below.

#### *The Charity Commission for England and Wales (CC)*

16. The government has engaged with the CC throughout the process of the IA regarding analytical and contextual input. The CC supported on time-cost and time-saving estimates, contextual information on the time it takes charities and the CC to complete various tasks within their organisations, and providing estimates for the number of charities which would fall out of scope when the thresholds are updated. The CC provided estimates for both option one and two. This IA takes the estimates provided by the CC and applies them to the estimated wage of a charity worker (2024 ASHE of the median gross hourly wage for "other Managers and Proprietors") and the estimated time-saving of falling out of scope of the threshold. These results form the basis of the current benefit estimates.

#### *Engagement with Charity Sector Stakeholders*

17. The government has engaged with several charity sector stakeholders who have experience supporting a range of accounts from larger charities to small and medium-sized charities to determine the cost burden of a statement of accounts. However, all stakeholders reflected that these were highly varied activities and thus estimating a typical time cost was challenging. Nevertheless, these estimates provided by key stakeholders were then applied to the estimates of the average wage of a charity worker (based on the 2024 ASHE) and the estimates for the number of charities in scope. These results form the basis of the current benefit and cost estimates.

### Approach

18. This section sets out the approach to estimating the impact to the charity sector of the proposed changes to existing regulation. At this stage it is not possible to predict with any certainty the actions of the sector to comply with the updated regulations.

19. Given that there is not a complete understanding of how different charitable organisations of varying size and purpose will comply with the changes to existing regulations, this IA develops a set of actions charitable organisations may take based on the update to the regulations.
20. In line with the requirements for impact assessments, all costs and benefits presented below are in 2024 prices and 2025 present value base year.
21. The review period for the update to the regulations will be 3 years, running from 2024 to 2027.

## 2.2 Costs and Benefits<sup>2</sup>

### Costs to Business

#### Familiarisation Costs to Business

22. As set out in Section 27(2)b of the Small Businesses, Enterprise and Employment Act 2015, business activities include 'any activities carried on by a voluntary or community body' which for the purposes of the Act (and outlined in Section 27(5)c) means charities. Therefore, for the purposes of this IA, all impacts on charities are treated as business impacts and incorporated into the equivalent annual net direct cost to business.
23. When estimating the time cost, this IA considered the average wage of a charity worker. Given the difficulties in understanding the exact wage of a charity due to the wide variations in charities and their operations, this IA uses the Annual Survey of Hours and Earnings estimate for the median gross hourly wage for "other Managers and Proprietors" which is £16.64<sup>3</sup> for the average wage of a charity worker.
24. The ASHE has been used as a proxy for charity workers in absence of an estimation for the wage of a charity worker. The wage of the charity worker cannot be estimated given the broad range of charities affected by updating the income thresholds. The ASHE is a reliable account of wages in the UK and the wage of a manager has been used to reflect the largely bureaucratic changes (which require sign-off from senior colleagues) charities will be performing as a result of the update.
25. To understand the number of charities currently in operation, this IA uses the CC data on the number of registered charities which stands at 170,662 on the 6th of December 2024<sup>4</sup>.
26. It is important to note that threshold 30(2)(d), the registration threshold for charities, shows the number of charities which will no longer be expected to register on an annual basis (200). This figure does not capture the number of charities which are currently

---

<sup>2</sup> All costs and benefits have been uplifted to account for non-wage labour costs and any internal estimates have been presented in this IA as rounded estimates.

<sup>3</sup> [https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2024\\_2](https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2024_2)

<sup>4</sup> <https://register-of-charities.charitycommission.gov.uk/sector-data/sector-overview>.

registered but will no longer be required to register if the threshold was raised to approximately £10,000 (rounded) as is modelled in Option 1. The number of charities falling out of this threshold would be 17,000. This figure has not been included in this analysis, because there is currently no legal power to deregister charities and strong evidence exists to show that charities will register voluntarily. Approximately 55,000 charities on the register are currently voluntarily registered as they fall below the £5,000 gross income threshold for registration.

27. Businesses likely to be impacted are:

- Those Charities which will be affected by a change to the financial thresholds.

### *Charities Affected by Changing Thresholds*

28. Charity operations can differ drastically to one another which makes it difficult to understand how long it will take charities to read and understand guidance on changes to the existing thresholds. Based on conversations with the CC, desk research regarding what updated guidance can look like, the government internally estimates an average of 1.5 hours for charities to read about the update to existing regulations and to update colleagues. This is broken down as: 30 minutes to assess the new thresholds and read the appropriate guidance, 30 minutes to digest the information and understand the impact, and 30 minutes to update fellow colleagues and provide guidance on the changes to existing thresholds through one-to-one and team meetings.

29. Therefore the familiarisation cost to the charity sector for reading and understanding guidance on changes to the existing thresholds is estimated to be £5,200,000 based on the following calculation of (1.5 hours \* number of charities \* £16.64) \*1.22 (where 1.22 accounts for non-wage costs).

30. Where the 'number of charities' is defined as the number of charities which will fall out of scope of the requirement by updating the thresholds in line with inflation on a threshold by threshold basis only.<sup>5</sup> This is shown by the column number of charities affected in Table Two.

---

<sup>5</sup> This IA is unable to provide a total estimate for the number of charities affected by the update to the thresholds following changes to the existing legislation as multiple charities will be affected by changes to a number of thresholds.

**Table 2**

<b>Section</b>	<b>Category</b>	<b>Expected change</b>	<b>Number of charities affected (rounded)</b>
133	Accounting	Statement of Accounts	6,000
145(1)	Accounting	Independent Examiner	11,000
145(3)	Accounting	Qualified Examiner	6,000
163(1)/(2)	Accounting	Annual Reports	11,000
169(2)	Accounting	Annual Return	20,000
139(2)	Accounting	Statement of Accounts	2,000
176	Accounting	Audit Required	2,000
30(2)(d)	Register	Registration	200 <sup>6</sup>
Sections 144(1)(a)	Accounting	Auditing Required	2,000

31. The government intends to test these estimates as part of the consultation and will seek to refine them in time for the final stage.

### Annual Costs to Business

32. There are no direct quantified ongoing costs to business.

### **Costs to Government and Society**

33. The regulations under assessment require charities to fulfil certain requirements, which include undertaking audit requirements, registering with the CC, producing an Annual Return and producing a Statement of Accounts. If these thresholds are raised in line with inflation, there will be a number of charities which are no longer required to fulfil these requirements. There will be an indirect cost to society, and therefore the government, by removing some regulations for those charities which will fall out of scope of the new thresholds. This indirect cost could come in the form of less incentive for this small proportion of charities to maintain good financial practice, leading to less financial stability and a reduction in public confidence in the charity sector.

34. There will also be an indirect cost to government and society in the form of a reduction in the data available as fewer charities will be required to produce financial records and register. For devolved bodies such as the CC, greater financial instability in charity practice and less data will affect their process of understanding risk and scrutiny. Moreover, according to conversations with the CC, only some charities maintain good financial practice regardless of regulations to maintain compliance with the Statement of

<sup>6</sup> This figure is an estimate for the number of new charities which will no longer be expected to register annually.

Recommended Practice (SoRP). In fact, the overall quality of financial reporting falls below the expected standard and current legislation fails to address the lack of power the CC have to prescribe the format and content of R&P accounts. Altogether, this exacerbates the issue in obtaining good quality data. However, because there is an absence of an agreed methodology for calculating this cost, this has not been monetised. Prescribing the form and content of R&P accounts would require primary legislation, which is not possible at present, but we will explore this if a legislative vehicle becomes available in the future.

35. There will also be a direct cost to the CC in regard to reviewing, updating and disseminating guidance based on changes to the existing thresholds, which has been monetised.
36. The CC suggested that it would take around three months for several colleagues including a policy manager, digital manager, and legal and accountancy support to review, update and disseminate guidance. However, the CC noted that these timeframes are not a precise estimate given how many variables could affect this estimate. For example, whilst changing a single number in a piece of guidance would be relatively quick, there is complexity around finding references and cross-referencing across their suite of guidance. Moreover, it will be even more time consuming to work through any changes to systems and online forms, for example updating the thresholds for registration. Therefore, the government acknowledges that there is uncertainty but has made an estimate based on stakeholder evidence that the time cost to the CC of updating the threshold is three month's worth of hours for eight colleagues.
37. Therefore, the familiarisation cost to the CC for reviewing, updating and disseminating guidance following changes to the existing regulations is estimated to be £73,000 based on the following calculation taking account of non-wage costs:  $((1,200 \text{ hours} * £16.64) * 3) * 1.22$ .
38. There will also be a direct cost to the government in regard to changing the CC's digital 'Apply to Register a Charity' service (ARC). Currently, only charities with an income above £5,000 can register using the ARC, if the threshold increased then the ARC service would need to be changed to reflect this, which can only be achieved through a major update of the platform. It is difficult to estimate the cost of this project, however, conversations with CC stakeholders and previous figures for digitising CC's accounts tells us that it would be a two-year process costing £500,000.
39. The government intends to test these estimates as part of the consultation and will seek to refine them in time for the final stage.

## Summary of Costs

COSTS			
<u>To Business</u>			

<b>Familiarisation Costs</b>		<b>Option 1</b>	
	Charities affected by threshold change	£5,200,000	
<b><u>Total Direct Cost to Businesses</u></b>			<b>£5,200,000</b>
<b><u>To Public Sector</u></b>			
	Charity Commission	£73,000	<b>£73,000</b>
	Government	£500,000	<b>£500,000</b>
<b>TOTAL DIRECT COSTS</b>			<b>£5,773,000</b>

## **Benefits to Business**

### Transitional Benefits to Business

40. There are no quantifiable transitional benefits for business. However, there are large ongoing benefits to business which are discussed below.

### Annual Benefits to Business

41. Benefits are understood on the basis of the number of hours spent by the charity fulfilling the requirements of the threshold. This includes completing a statement of accounts, auditing requirements, bringing in an independent examiner, completing an annual report, completing an annual return, registering, and producing a solicitation statement.

42. To estimate the time-saving contributing to benefits to business, we use the Annual Survey of Hours and Earnings which provides data on the median gross hourly wage for “other Managers and Proprietors”, which is £16.64<sup>7</sup> for the average wage of a charity worker.

43. The CC provided an estimate for the number of charities currently under each threshold and the number which will fall out of scope when the thresholds have been updated in line with inflation. These estimations have been provided by the CC based on manually produced data provided by charity trustees, staff and volunteers, and thus are subject to some error. These numbers are therefore indicative and the government intends to test these estimates as part of the consultation and will seek to refine them in time for the final stage.

44. The CC was unable to provide an estimation for the number of charities currently in scope for the thresholds specific to fundraising. Discussions with the Fundraising Regulator (FR) clarified that the fundraising thresholds in scope relate to remuneration of collectors rather than the income or expenditure of charities. Consequently, it has not been possible to estimate the number of charities affected by changes to fundraising

<sup>7</sup><https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2024>

thresholds under the 1992 Act 60B(2) & 60B(5). The impact of updating the fundraising thresholds is not expected to be large.

45. Table Three provides an overview of the total wage costs per each requirement.

**Table 3**

<b>Requirement</b>	<b>Time-cost (hours)</b>	<b>Wage</b>	<b>Total Wage Costs</b>
<b>Statement of Accounts</b>	40 hours	£16.64	£666
<b>Auditing Requirements</b>	n/a	n/a	£6,300
<b>Independent Examiner</b>	n/a	n/a	£700
<b>Qualified Examiner</b>	n/a	n/a	£2,600
<b>Completing an Annual Report</b>	1 hours	£16.64	£16.64
<b>Completing an Annual Return</b>	4 hours	£16.64	£70
<b>Registration</b>	0 hours	£16.64	£0
<b>Solicitation Statement</b>	1 hour	£16.64	£16.64

46. Businesses likely to be impacted are charities which will no longer be required to fulfil the following requirements as they fall out of scope of the thresholds following changes to existing regulations:

- Produce a Full Statement of Accounts
- Submitting an Annual Report
- Bring in an Independent
- Bringing in a Qualified Examiner
- Fulfil Auditing Requirements
- Produce and Share an annual return
- Produce a solicitation statement
- Register

#### *Producing a Full Statement of Accounts*

47. A statement of accounts comprises cash-based accounts (payments and receipts) and accruals accounts. A further aspect are accounts which require auditing, however these are considered in the following section in relation to a separate threshold. Discussions with the CC and several sector stakeholders who have experience supporting accounts

from a range of charities, including small and micro, medium and large, found that the time taken to complete both cash-based accounts and accruals accounts, and the individual undertaking these tasks, varies significantly depending on the charity. Moreover, there is no guarantee that a charity will switch to cash-based accounts if they no longer are within scope of the threshold which makes accruals based accounts a requirement. Nevertheless, stakeholders provided a breakdown of the time taken to complete both cash accounts and accruals accounts in a **best case scenario**, defined as a situation where all information is present and the accounts are completed in-house. The government estimates that, based on stakeholder evidence, the average of these suggestions is 10 hours for cash-based accounts and 50 hours for accruals accounts. This estimate is an approximation.

48. Therefore, the annual benefit to charities of no longer having to produce a full statement of accounts after falling out of scope of the threshold following changes to the existing regulations is the difference between cash-based and accruals accounts (40 hours) multiplied by the wage provided by the ASHE (£16.64) to give the time cost being saved. This is then multiplied by the number of charities affected. The equation therefore becomes (where 1.22 is the non-wage costs):  $(40 * 16.64 * \text{number of charities affected}) * 1.22$ .

49. The government intends to test these estimates as part of the consultation and will seek to refine them in time for the final stage.

### *Submitting an Annual Report*

50. The government estimates an average of 1 hour for the time it takes for a charity to submit an annual report. This average was taken from desk research on the length of an Annual Report<sup>8</sup> and conversations with CC stakeholders which clarified the average time taken by charities to send the report.

51. Therefore, the annual benefit to charities of no longer having to submit an Annual Report after falling out of scope of the threshold is the difference between the time it takes to submit an Annual Report and to not submit an Annual Report multiplied by the wage of an average charity worker, and the number of charities affected. The equation therefore becomes  $(1 * 16.64 * \text{number of charities affected}) * 1.22$ .

52. The government intends to test these estimates as part of the consultation and will seek to refine them in time for the final stage.

### *Independent Examiner*

53. Based on desk research of the cost of bringing in an independent examiner, the government internally estimates that the cost of an independent examiner for smaller charities is £700. This figure is taken from dip-sampling conducted by CC stakeholders.

---

<sup>8</sup> <https://www.gov.uk/guidance/prepare-a-charity-trustees-annual-report>



54. Therefore, the annual benefit to charities of no longer having to bring in an independent examiner is the cost of the examiner (£700) multiplied by the number of charities affected. The equation therefore becomes ( $£700 * \text{number of charities affected}$ ).

55. The government intends to test these estimates as part of the consultation and will seek to refine them in time for the final stage.

### Qualified Examiner

56. Based on desk research of the cost of bringing in a qualified examiner, the government internally estimates that the cost of a qualified examiner for larger charities is £2,600. This figure is found by taking away the cost of an independent examiner (£700) from the cost of a qualified examiner (£3,300). The figure £3,300 is taken from a Cabinet Office estimate (2015) which found that the cost of bringing in a qualified independent examiner was £2500,<sup>9</sup> adjusted for inflation (CPIH) and converted into 2024 prices. The government has used this Cabinet Office figure as it is from a reputable source and offers an insight into the cost of an qualified independent examiner which conversations with stakeholders, including the CC, were unable to provide. However, the government is committed to using the consultation to revise this number.

57. Therefore, the annual benefit to charities of no longer having to bring in a qualified examiner is the cost of the examiner (£2,600) multiplied by the number of charities affected. The equation therefore becomes ( $£2,600 * \text{number of charities affected}$ ).

58. The government intends to test these estimates as part of the consultation and will seek to refine them in time for the final stage.

### Auditing Requirements

59. Based on desk research of the cost of auditing requirements, the government internally estimates that the cost of completing auditing requirements is £9,600 for charities with an income between £1-2m. This figure is taken from the Charity Audit Survey 2024 released by The Charity Finance Magazine and Civil Society<sup>10</sup>. However, a charity that no longer requires an audit will require a qualified independent examination (£3,300). Therefore, the potential cost saving is £6,300. The government has used this Civil Society figure as it is from a reputable source and offers an insight into the cost of an auditor which conversations with stakeholders, including the CC, were unable to provide. However, the government is committed to using the consultation to revise this number.

60. Therefore, the annual benefit to charities of no longer having to fulfil auditing requirements is the cost of an auditor (£9,600) minus the cost of a qualified independent examiner (£3,300) multiplied by the number of charities affected. The equation therefore becomes ( $£6,300 * \text{number of charities affected}$ ).

---

<sup>9</sup><https://www.thirdsector.co.uk/charities-opt-audits-wise/finance/article/1352247#:~:text=The%20Cabinet%20Office%20estimates%20that,audits%2C%20although%20fees%20can%20vary>.

<sup>10</sup> <https://www.civilsociety.co.uk/finance/charity-audit-survey-2024-a-new-sorp-is-just-around-the-corner.html>

61. The government intends to test these estimates as part of the consultation and will seek to refine them in time for the final stage.

### *Producing an Annual Return*

62. Discussions with the CC, who support and process Annual Returns from charities, found that the time taken to complete both the first half of an Annual Return (gathering information and getting sign off) and the second half (submitting the information) varies significantly depending on the size of the charity. Smaller charities will expect to spend under a day's worth of hours completing an Annual Return, whilst medium and larger charities will expect to spend between one day and five days worth of hours completing an Annual Return. The timing for low-income charities (between £10,000 and £25,000) was taken, as this income group would be affected by the threshold uplifting, giving a time estimate of 4 hours to complete an Annual Return.

63. Therefore, the annual benefit to charities of no longer having to produce an Annual Return after falling out of scope of the threshold is the difference between the time it takes to perform an Annual Return and not performing an Annual Return, multiplied by the wage of the average charity worker, and the number of charities affected. The equation therefore becomes  $(4 * 16.64 * \text{number of charities affected}) * 1.22$

64. The government intends to test these estimates as part of the consultation and will seek to refine them in time for the final stage.

### *Solicitation Statement*

65. Based on desk research on the length of a Solicitation Statement<sup>11</sup>, the government internally estimates that it will take a charity 1 hour to produce a Solicitation Statement. The government was unable to confirm this with any stakeholders so has committed to using the consultation to refine this estimate.

66. Therefore, the annual benefit to charities of no longer having to produce a Solicitation Statement after falling out of scope of the threshold is the difference between the time it takes to perform a Solicitation Statement and not performing a Solicitation Statement multiplied by the wage of the average charity worker. The equation is therefore  $(1 * £16.64 * \text{number of charities affected annually}) * 1.22$ .

67. The government intends to test these estimates as part of the consultation and will seek to refine them in time for the final stage.

### *The Registration Process*

68. Discussions with the CC who support and process registrations from charities found that the time taken to complete both the first half of registration (gathering information and getting sign off) and the second half of registration (submitting the information) varies

---

<sup>11</sup> <https://ciof.org.uk/about-us/what-we-re-doing/compliance/standards>

significantly depending on the size of the charity. Smaller charities will expect to spend under a day's worth of hours completing the registration process, whilst medium and larger charities will expect to spend between one day and five days worth of hours completing the registration process. An average of these timings was taken, giving a time cost of 10 hours to complete the registration process.

69. However, in practice charities lose out on funding opportunities if they are not registered and face similar administrative costs choosing to register as CIOs to retain the benefits of registration. Discussions with CC stakeholders found that these losses are equivalent to the potential annual benefits to charities of no longer having to complete the registration process. The figure taken to represent this benefit is therefore zero.

70. The government intends to test these estimates as part of the consultation and will seek to refine them in time for the final stage.

**Table 4: Summary<sup>12</sup>**

Requirement	Time-cost (hours)	Wage	Average Saving per Charity	Number of Charities Affected Annually	Total Cost Saving (rounded)
Statement of Accounts	40 hours	£16.64	£666	6,000 <sup>13</sup>	£5,000,000
Auditing Requirements	n/a	n/a	£6,300	2,000 <sup>14</sup>	£12,600,000
Independent Examiner	n/a	n/a	£700	11,000	£7,700,000
Qualified Examiner	n/a	n/a	£2,600	6,000	£15,600,000
Completing an Annual Report	1 hours	£16.64	£16.64	11,000	£200,000
Completing an Annual Return	4 hours	£16.64	£70	20,000	£1,700,000
Registration	0 hours	£16.64	£0	200	£0
Solicitation Statement	1 hour	£16.64	£16.64	100	£2,000

## Benefits to Government and Society

<sup>12</sup> All values have been uplifted by 1.22 to account for non-wage costs and rounded (except for auditing requirements and external examiners).

<sup>13</sup> 6,000 represents the number of charities that are affected by the change to section 133 and 139(2), as they overlap.

<sup>14</sup> 2,000 represents the number of charities that are affected by the change to section 176 and 144(1)(a), as they overlap.

71. There are no significant identifiable monetisable benefits to government and society.

72. However, there is conceivably a minor non-monetisable benefit to society as charities will be released from administrative requirements which were perhaps disproportionate to their size or income and will enable them to focus a greater portion of their energy on their charitable purpose.

## Summary of Benefits

<b>BENEFITS<sup>15</sup></b>		
<b><u>To Business</u></b>		
<b>Annual benefits</b>		<b>Option 1</b>
	Statement of Accounts	£5,000,000 <sup>16</sup>
	Auditing Requirements (charities with income £1-2m)	£12,600,000 <sup>17</sup>
	Independent Examination	£7,700,000
	Qualified Examination	£15,600,000
	Annual Report	£200,000
	Annual Return	£1,700,000
	Solicitation Statement	£2,000
	Registration	£0
<b><u>Total Direct Benefits to Businesses</u></b>		<b>£42,802,000</b>
<b>TOTAL DIRECT BENEFITS</b>		<b>£42,802,000</b>

<sup>15</sup> Include the uplift of 22% to account for non-wage costs

<sup>16</sup> This figure represents the cost saving from section 133 and 139(2) collectively to avoid double-counting.

<sup>17</sup> This figure represents the cost saving from section 176 and 144(1)(a) collectively to avoid double-counting as a change to these thresholds will affect the same charities.

## Summary of Costs and Benefits

73. This gives an EANDCB of approximately -42.0 in 2024 prices and a NPSV of £361.7m over the appraisal period in 2024 prices for the preferred option. Costs and benefits for a single year are shown in the table below to give an indication of who is affected.

<b>COSTS</b>			
<b><u>To Business</u></b>			
<b>Familiarisation Costs</b>		<b>Option 1</b>	<b>£5,236,500</b>
	Charities affected by threshold change	£5,200,000	
<b><u>Total Direct Cost to Businesses</u></b>			<b>£5,200,000</b>
<b><u>To Public Sector</u></b>			
	Charity Commission (CC)		£73,000
	Government		£500,000
<b>TOTAL DIRECT COSTS</b>			<b>£5,736,5000</b>
<b>BENEFITS</b>			
<b>Annual Benefits</b>			
		<b>Option 1</b>	<b>£42,802,000</b>
	Statement of Accounts	£5,000,000	
	Auditing Requirements (charities with income £1-2m)	£12,600,000	
	Independent Examination	£7,700,000	
	Qualified Examination	£15,600,000	
	Annual Report	£200,000	
	Annual Return	£1,700,000	

	Solicitation Statement	£2,000	
	Registration	£0	
<b><u>Total Direct Benefits to Businesses</u></b>		<b>£42,802,000</b>	
<b>TOTAL DIRECT BENEFITS</b>		<b>£42,802,000</b>	

## 2.3 Sensitivity Analysis

74. This IA suggests that undertaking additional sensitivity analysis (beyond the calculation of ‘high’ and ‘low’ estimates around the best estimate) is neither proportionate, nor feasible (given the lack of data to inform alternative assumptions). This is due to the impact of the intervention being de-regulatory and non-controversial and the assumptions are appropriately cautious given the limitations of the data available.

75. This IA is committed to using the consultation responses to inform refined analysis, and potentially appropriate sensitivity analysis, in the final-stage IA.

## 2.4 Option 2

Cost of Preferred Option 2 (in 2024 prices)			
<b>Total Net Present Social Value</b>	<b>Business Net Present Value</b>	<b>Net Cost to Business per Year</b>	<b>Business Impact Target Status Qualifying Provision</b>
141.9	141.9	-16.5	

76. Option 2 presents an alternative to an inflationary uplift, while still uplifting the thresholds by 20% from its baseline. This figure was chosen as it serves to balance the concerns about the loss of data for, and scrutiny by, the Charity Commission if an inflationary uplift were to be implemented and the burden that falls on charities to perform the requirements. Based on Charity Commission data, it is clear that not all charities have seen their income increase at the same rate as inflation and maintaining a proportionate number of regulated charities would require a threshold uplift that is lower than an inflationary increase.

77. Therefore, this option aims to represent the fact that charity income has not always kept pace with inflation, but raising thresholds may reduce the burden on smaller charities while still ensuring a proportionate level of data and regulation of the sector.

78. The government intends to use the consultation to inform decision-making about updating on a threshold-by-threshold basis.

79. This option has been quantitatively modelled below, using the same evidence and approach as outlined for Option 1 above.

80. Please refer to Annex B for the Full Economic Assessment and Business Assessment for option 2.

### Costs to Business

81. The familiarisation costs to charities are identical to those outlined for Option 1. Please refer to paragraphs 22 - 27 for further detail.

### Annual Costs to Business

82. There are no direct quantified ongoing costs to business.

### Costs to Government and Society

83. The familiarisation costs to the CC are identical to those outlined for Option 1. Please refer to paragraphs 33 - 39 for further detail.

84. Table 5 shows the number of charities affected by updating the thresholds.

**Table 5**

Section	Category	Expected change	Number of charities affected (rounded)
133	Accounting	Statement of Accounts	2,500
145(1)	Accounting	Independent Examiner	4,000
145(3)	Accounting	Qualified Examiner	2,500
163(1)/(2)	Accounting	Annual Reports	4,000
139(2)	Accounting	Statement of Accounts	1,000
176	Accounting	Audit Required	1,000
Sections 144(1)(a)	Accounting	Auditing Required	1,000

### Summary of Costs

<b>COSTS</b>			
--------------	--	--	--

<b><u>To Business</u></b>			
<b>Familiarisation Costs</b>		<b>Option 2</b>	
	Charities affected by threshold change	£5,200,000	
<b><u>Total Direct Cost to Businesses</u></b>			<b>£5,200,000</b>
<b><u>To Public Sector</u></b>			
	Charity Commission	£73,000	<b>£73,000</b>
<b>TOTAL DIRECT COSTS</b>			<b>£5,273,000</b>

## Benefits to Business

### Transitional Benefits to Business

85. There are no quantifiable transitional benefits for business. However, there are large ongoing benefits to business, which are discussed below.

### Annual Benefits to Business

86. Benefits are understood on the basis of the number of hours spent by the charity fulfilling the requirements of the threshold. For option 2, this includes completing a statement of accounts, auditing requirements, bringing in an independent examiner, and completing an annual report.

87. To estimate the time-saving contributing to benefits to business, we use the Annual Survey of Hours and Earnings which provides data on the median gross hourly wage for “other Managers and Proprietors”, which is £16.64<sup>18</sup> for the average wage of a charity worker.

88. The CC provided an estimate for the number of charities which will be affected by an increase to the thresholds. These estimations have been provided by the CC based on manually produced data provided by charity trustees, staff and volunteers, and thus are subject to some error. These numbers are therefore indicative and the government intends to test these estimates as part of the consultation and will seek to refine them in time for the final stage.

89. Table Six provides an overview of the total wage costs per each requirement.

**Table 6**

Requirement	Time-cost (hours)	Wage	Total Wage Costs
-------------	-------------------	------	------------------

<sup>18</sup><https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2024>



<b>Statement of Accounts</b>	40 hours	£16.64	£666
<b>Auditing Requirements</b>	n/a	n/a	£6,300
<b>Independent Examiner</b>	n/a	n/a	£700
<b>Qualified Examiner</b>	n/a	n/a	£2,600
<b>Completing an Annual Report</b>	1 hours	£16.64	£16.64

90. Businesses likely to be impacted are charities which will no longer be required to fulfil the following requirements as they fall out of scope of the thresholds following changes to existing regulations (please refer to the specified paragraphs for further details):

- Produce a Full Statement of Accounts (paragraphs 47-49)
- Fulfil Auditing Requirements (paragraphs 59-61)
- Bring in an Independent Examiner (paragraphs 53-55)
- Bring in a Qualified Examiner (paragraphs 56-58)
- Produce and Share an Annual Report (paragraphs 50-52)

**Table 7: Summary<sup>19</sup>**

<b>Requirement</b>	<b>Time-cost (hours)</b>	<b>Wage</b>	<b>Average Saving per Charity</b>	<b>Number of Charities Affected Annually (rounded)</b>	<b>Total Cost Saving (rounded)</b>
<b>Statement of Accounts</b>	40 hours	£16.64	£666	2,500 <sup>20</sup>	£2,000,000
<b>Auditing Requirements</b>	n/a	n/a	£6,300	900 <sup>21</sup>	£5,700,000
<b>Independent Examiner</b>	n/a	n/a	£700	4,000	£2,800,000
<b>Qualified Examiner</b>	n/a	n/a	£2,600	2,500	£6,500,000
<b>Completing an Annual Report</b>	1 hours	£16.64	£16.64	4,000	£80,000

## **Benefits to Government and Society**

<sup>19</sup> All values have been uplifted by 1.22 to account for non-wage costs and rounded except those for auditing requirements and external examiners.

<sup>20</sup> 2,500 represents the number of charities affected by changes to sections 133 and 139(2) as they overlap.

<sup>21</sup> 900 represents the number of charities affected by changes to sections 176 and 144(1)(a) as they overlap.

91. There are no significant identifiable monetisable benefits to government and society.
92. However, there is conceivably a minor non-monetisable benefit to society as charities will be released from administrative requirements which were perhaps disproportionate to their size or income and will enable them to focus a greater portion of their energy on their charitable purpose.

## Summary of Benefits

<b>BENEFITS<sup>22</sup></b>		
<b><u>To Business</u></b>		
<b>Annual benefits</b>		<b>Option 2</b>
	Statement of Accounts	£2,000,000
	Auditing Requirements	£5,700,000
	Independent Examination	£2,800,000
	Qualified Examination	£6,500,000
	Annual Report	£80,000
<b><u>Total Direct Benefits to Businesses</u></b>		<b>£17,080,000</b>
<b>TOTAL DIRECT BENEFITS</b>		<b>£17,080,000</b>

## Summary of Costs and Benefits

93. This gives an EANDCB of approximately -16.5 in 2024 prices and a NPSV of £141.9m over the appraisal period in 2024 prices for option 2. Costs and benefits for a single year are shown in the table below to give an indication of who is affected.

<b>COSTS</b>			
<b><u>To Business</u></b>			
<b>Familiarisation</b>		<b>Option 2</b>	<b>£5,200,000</b>

<sup>22</sup> Include the uplift of 22% to account for non-wage costs

<b>Costs</b>			
	Charities affected by threshold change	£5,200,000	
<b><u>Total Direct Cost to Businesses</u></b>			<b>£5,200,000</b>
<b><u>To Public Sector</u></b>	Charity Commission (CC)		£73,000
TOTAL DIRECT COSTS			<b>£5,273,000</b>
<b>BENEFITS</b>			
<b>Annual Benefits</b>		<b>Option 1</b>	<b>£17,080,000</b>
	Statement of Accounts	£2,000,000	
	Auditing Requirements	£5,700,000	
	Independent Examination	£2,800,000	
	Qualified Examination	£6,500,000	
	Annual Report	£80,000	
<b><u>Total Direct Benefits to Businesses</u></b>			<b>£17,080,000</b>
TOTAL DIRECT BENEFITS			<b>£17,080,000</b>

## 2.5 Risks and Assumptions

### Risks

<b>Risks</b>	<b>Mitigations</b>
Reduction in data provided by those charities which fall out of scope of the threshold.	Triangulate across sources to maintain good data on the sector.
Less charities will be obligated to comply with additional levels of regulation which maintain	Conversations with the Charity Commission confirmed that charities are likely to comply

good administrative procedural practice.	with the SORP which encourages charities to maintain good administrative practice.
--	--

94. Financial thresholds were subject to consultation by the Law Commission when they produced their Technical Issues in Charity Law Report (2017) and this further consultation will ensure that the sector and relevant industry stakeholders are able to contribute their expertise. This will help mitigate the likelihood of risk or unintended consequences.

95. Conclusion: The overall risk is negligible and this IA does not envisage any unintended consequences.

## Assumptions

Assumptions	
The thresholds will be updated in line with inflation according to CPIH.	This IA currently uses CPIH to demonstrate the impact on the thresholds of updating with inflation. CPIH enables the most up-to-date assessment of comparable current prices at which to set revised thresholds compared to other measures of inflation such as RPI (Retail Price Index). However, the government is committed to ensuring that the measure of inflation used is based on expert views in the sector, thus will be using the consultation to test and refine this measure.
This IA assumes no growth rate per annum in the number of charities across the appraisal period.	Current NCVO numbers <sup>23</sup> exist up to 2021/2022 as the data comes from the CCEW annual returns data where there is a lag between the filing deadline and both the year to which the accounts relate and the publication of the data. Nevertheless, of the information available, it is clear that there has been little to no growth in the charity sector over the last 6 years. <ul style="list-style-type: none"> <li>● 2017/18: 167k charities</li> <li>● 2018/19: 163k charities</li> <li>● 2019/20: 166k charities</li> <li>● 2020/21: 164k charities</li> <li>● 2021/22: 166k charities</li> </ul>
The data used to inform the analysis of the number of charities affected by potential	A degree of approximation has been necessary.

<sup>23</sup> <https://www.ncvo.org.uk/news-and-insights/news-index/uk-civil-society-almanac-2023/about/previous-editions/>

<p>changes is collected by the CC and the FR.</p>	
<p>The data used to inform the analysis of the impact of new thresholds following changes to the existing regulations.</p>	<ul style="list-style-type: none"> <li>● The wage of a charity worker is based on the ASHE of the median gross hourly wage for “other Managers and Proprietors”.</li> <li>● The amount of time a trustee needs to familiarise themselves with the changes to threshold regulations and disseminate updated information is assumed to be 1.5 hours per charity (internal estimate)</li> <li>● The amount of time the CC needs to produce and disseminate guidance, as well as, train staff is assumed to be 1,200 hours (internal estimate based on information shared by the CC of 8 colleagues completing the changes). The actual time taken to complete this task and the role of the person undertaking them will be affected by multiple factors including working through any necessary changes to the digital system and online forms and developing policies in relation to new thresholds. Thus this estimate is accordingly very approximate.</li> <li>● The average amount of time (based on all charities) it takes a trustee to complete an annual return is estimated at 10 hours<sup>24</sup> (internal estimate based on information shared by the CC, to submit an annual report is estimated at 1 hour (internal estimate based on desk research), to register is estimated at 10 hours (internal estimate based on information shared by the CC) and to provide a Solicitation Statement is estimated at 1 hour (internal estimate based on desk research). The actual time taken to complete these tasks and the role of the person undertaking them will vary considerably and therefore the estimates are accordingly very approximate.</li> <li>● The cost of bringing in an independent examiner (£700) is based on dip-sampling conducted by the CC. The cost of bringing in a qualified examiner (£3,300) is based on Cabinet Office figures adjusted for</li> </ul>

<sup>24</sup> The estimated amount of time it takes a trustee to complete an annual return for low-income charities is 4 hours.

	<p>inflation. The cost of an auditor (£6,300) is based on Civil Society figures. Again, the cost of completing these tasks and the role of the person undertaking them will vary considerably and therefore the estimates are accordingly very approximate.</p> <ul style="list-style-type: none"> <li>• The amount of time it takes a trustee to complete accruals accounts (estimated average of 50 hours) and cash accounts (estimated average of 12 hours) and that these are completed in house. These figures were determined by conversations with CC and sector stakeholders who have experience supporting on a range of accounts from larger charities to small and more medium sized charities. It was clear from these conversations that the actual time taken to complete these tasks and the role of the person undertaking these tasks varies considerably, and the estimate is accordingly very approximate.</li> </ul>
--	--

96. This IA makes a number of assumptions to understand the impact of changing the thresholds as a result of an update to the existing regulations. Thus, the government is committed to using the consultation to gather further evidence to refine these assumptions.

## 2.6 Small and Micro Business Assessment & Medium-Sized Business Assessment

97. Given the business demographics of the charities affected by the change in the threshold following changes to the existing regulations, around fifty percent of the familiarisation costs and annual benefits will be borne by small businesses.

98. The number of small and micro charities which operate in the sector is approximately 132,000 (2020/21).<sup>25</sup>

99. Based on the information provided by the CC, we have an understanding of the number of charities which will be affected by changes to the thresholds.

100. While the Small Business, Enterprise and Employment Act defines small and micro businesses by the number of employees, this is not possible for charities because

<sup>25</sup> <https://www.ncvo.org.uk/news-and-insights/news-index/uk-civil-society-almanac-2023/>

a large amount of the workforce are volunteers. As per standard appraisal practice in this area, charities are categorised by annual revenue instead, which is in line with RPC guidance on taking an inclusive approach. In turn, this IA makes an assumption that those charities who sit under the income threshold of £100,000 are small and micro businesses. Extending this to include medium-sized businesses, those charities who sit between the income threshold of £100,000 and £1,000,000 are medium-sized businesses.

101. Assuming that those charities which sit under the income threshold of £100,000 are small and micro businesses; changes to four of the ten thresholds will affect small and micro businesses. If this is extended to include medium-sized businesses then changes to seven of the ten thresholds will affect small and micro, and medium-sized businesses.

102. Table 3 and 4 highlights how changes to the thresholds will affect small and micro, and medium-sized businesses. affected by the update to the existing thresholds.<sup>26</sup>

**Table 5: Small and Micro Businesses**

**Changes to the following thresholds will affect small and micro businesses.**

Section	Category	Expected change	Number of Charities affected by changing the threshold
145(1)	Accounting	Independent Examiner	11,000
163(1)/(2)	Accounting	Annual Reports	11,000
169(2)	Accounting	Annual Return	20,000
30(2)(d)	Register	Registration	200

**Table 6: Medium Sized Businesses**

**Changes to the following thresholds will affect medium sized businesses.**

Section	Category	Expected change	Number of Charities affected by changing the threshold
133	Accounting	Statement of Accounts	6,000
145(1)	Accounting	Independent	11,000

<sup>26</sup> This Impact Assessment is unable to provide a total estimate for the number of charities affected by the update to the thresholds following changes to the existing legislation as multiple charities will be affected by changes to a number of thresholds.

Section	Category	Expected change	Number of Charities affected by changing the threshold
		Examiner	
145(3)	Accounting	Qualified Examiner	6,000
163(1)/(2)	Accounting	Annual Reports	11,000
169(2)	Accounting	Annual Return	20,000
30(2)(d)	Register	Registration	200
Sections 144(1)(a)	Accounting	Audit Required	<1,000 <sup>27</sup>

103. These businesses, like all of those businesses affected by changes to thresholds will face a total familiarisation cost of £24 per charity. Whilst there are currently no statistics for the exact total number of small and micro businesses which will face the burden of this cost, this IA can assume that a portion of the overall number of registered charities will be affected, excluding those which are already exempted from the thresholds under consideration.

104. To address these potential cost burdens, this IA considers the following mitigations which would aim to reduce the impact of familiarisation costs on small and micro and medium-sized businesses; guidance focused towards small and micro businesses and support from government bodies. The CC regularly updates their public-facing guidance to ensure that charity trustees understand changes in legislation in order to fulfil their roles effectively. The government will work with the CC to produce informative guidance. However, the government is committed to using the consultation process to refine these mitigations.

105. However, it is unlikely that this will be a disproportionate cost on these charities given that this cost is a one-off and will be balanced by the significant benefits which will be enjoyed annually by those charities who will be affected when the thresholds change.

106. Some small and micro and medium-sized businesses are expected to enjoy an annual benefit per charity from no longer having to perform the requirements of the thresholds:

107. For some small and micro businesses

- Solicitation Statement: £16
- Annual Report: £16
- Annual Return: £200
- Employ an independent examiner: £700
- Register: £0

<sup>27</sup> A proportion of the 1,000 charities is expected to be SMEs, however, the exact number is unknown. This may be an overestimate if a small proportion are actually SMEs.



For some Medium-sized businesses

- Audit Requirement: £6,300
- Statement of Accounts: £600
- Independent Examiner: £700
- Qualified Examiner: £2,600

108. Conclusion: This policy is de-regulatory in nature, specifically for small and micro businesses. Thus, they will not be exempted from the threshold changes because they will enjoy significant benefits over a sustained period of time from the changes to the thresholds following an update to the existing regulations. Whilst there will be effects on small and micro businesses (some of which are not exempted), which are unavoidable due to the policy objective and the business demographics of the charity sector, these can be addressed with specific measures. Thus, to exempt small and micro and medium-sized businesses would have a negative impact.

## **2.7 Trade and Investment Assessment**

109. This IA has considered the impact on issues within the trade and investment space and has determined that, given the nature of the charity sector being funded largely by donations, removing regulatory burden is unlikely to encourage investment into the sector as would be expected in the business sector. Moreover, it is likely that established charities will be most affected by the new thresholds following changes to existing regulations.

## **2.8 Competition Impact Assessment**

110. This update to the thresholds is deregulatory in nature. Thus, if it has any impact on competition in the charity sector, it will likely be to encourage new charities to enter the sector as they will face fewer burdens. Overall, this will have a net positive impact on competition.

## **2.9 Equalities Impact Assessment**

111. It is unlikely that this intervention will have an impact (whether positive or negative) on any issues within the scope of the equalities Impact Assessment.

## **2.10 A Summary of the Potential Trade Implications of Measure**

112. It is likely that this intervention will have little to no impact (whether positive or negative) on trade given the domestic nature of the intervention.

## **3.0 Wider Tests**

113. This IA considers that there are no wider tests to consider.

### 3.1 Post Implementation Review/Monitoring and Evaluation Plan

114. There will be a statutory review of the Charities Act 2022 by February 2027, however this will be too early to fully assess the impacts of the threshold changes, so there will be a subsequent review of the thresholds by 2031, to assess whether the review is meeting its objectives.
115. The purpose of this work will be to assess the on-going costs and benefits following implementation, and to identify any unintended consequences (whether positive or negative). This will be conducted by DCMS working with key stakeholders including the CC and other charity stakeholders.
116. The government will use data on the number of charities affected by the threshold changes (for example, tracking the numbers above and below previous and revised thresholds) from the CC to assess any trends and whether the impact met our expectations. The government will engage with the CC and other sector stakeholders to identify any unintended consequences resulting from the changes, as well as the impact of the data loss due to de-regulation.
117. Other indicative research questions will include:
- What are the volumes of charities affected?
  - What costs and benefits have these charities incurred as a result of the change in thresholds?
  - Are there any unintended effects on the regulatory work of the CC as a result of a change in thresholds?
  - How significant is the loss of data (due to deregulation) for users of CC data, including Government, academia, and users in the VCSE sector itself?
  - Whether deregulation has resulted in lowered standards across the sector?

## 4.0 Annexes

### Annex A: Number of Charities affected when increasing in line with inflation

Section	Category	Expected change	Current threshold	New Rounded Threshold	Number of charities affected by the threshold update (rounded)	Total number of hours saved per year	Total cost saved per year	Annual Benefit (Best estimate-uplift)
133	Accounting	Statement of Accounts	250,000	400,000	6,000	40	£666	£4,772,642
145(1)	Accounting	Independent Examiner	25,000	40,000	11,000	n/a	£700	£7,690,900
145(3)	Accounting	Qualified Examiner	250,000	400,000	6,000	n/a	£2,600	£15,774,200

Section	Category	Expected change	Current threshold	New Rounded Threshold	Number of charities affected by the threshold update (rounded)	Total number of hours saved per year	Total cost saved per year	Annual Benefit (Best estimate-uplift)
163(1)/(2)	Accounting	Annual Reports	25,000	40,000	11,000	1	£16.64	£223,045
169(2)	Accounting	Annual Return	10,000	20,000	20,000	4	£70	£1,633,078
139(2)	Accounting	Statement of Accounts	1,000,000	1,500,000	2,000	40	£666	£1,573,312 <sup>28</sup>
176	Accounting	Audit Required	1,000,000	1,500,000	2,000	n/a	£6,300	£12,600,000 <sup>29</sup>
30(2)(d)	Register	Registration	5,000	10,000	200	0	£0	£0
Sections 144(1)(a)	Accounting	Auditing Required	1,000,000	1,500,000	2,000	n/a	£6,300	£12,600,000 <sup>30</sup>

## Annex B: Full Economic Assessment and Business Assessment for Option 2

### FULL ECONOMIC ASSESSMENT (Option 2)

Price Base Year 2024	PV Base Year 2025	Time Period 10 Years	Net Benefit (Present Value (PV)) (£m)		
			Low: 103.8	High: 180.1	Best Estimate: 141.9

COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
<b>Low</b>	4.0	1	0	<b>4.0</b>

<sup>28</sup> This figure is not included in the final analysis as the charities in scope of section 139(2) are accounted for in section 133.

<sup>29</sup> The charities affected by a change to threshold s.176 and s.144(1)(a) overlap, therefore, to avoid double counting the cost savings of £12,600,000 has only been used once in the analysis.

<sup>30</sup> See footnote 25.

<b>High</b>	6.6	1	0	<b>6.6</b>
<b>Best Estimate</b>	5.3	1	0	<b>5.3</b>

<b>BENEFITS (£m)</b>	<b>Total Transition (Constant Price) Years</b>		<b>Average Annual (excl. Transition) (Constant Price)</b>	<b>Total Benefit (Present Value)</b>
<b>Low</b>	Optional	0	12.8	<b>110.4</b>
<b>High</b>	Optional	0	21.4	<b>184.0</b>
<b>Best Estimate</b>		0	17.1	<b>147.2</b>

#### **BUSINESS ASSESSMENT (Option 2)**

<b>Direct impact on business (Equivalent Annual) £m:</b>			<b>Score for Business Impact Target (qualifying provisions only) £m: -82.4</b>
<b>Costs: 0.6</b>	<b>Benefits: 17.1</b>	<b>Net: - 16.5</b>	