



CHARITY COMMISSION
FOR ENGLAND AND WALES

Charity Sector Risk Assessment 2025



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Introduction

Charities have shown remarkable resilience in facing up to the challenges that have arisen over recent years – from a global pandemic to a once-in-a-generation cost of living crisis. In responding to these events, charities have reminded us once again of their central importance to our society.

Public trust and confidence in charities is fundamental to a sustainable sector. Our research shows that public trust in charities remains high, with almost 60% of people reporting high trust in charities – placing them second only to doctors among trusted institutions in society.

Maintaining this position of trust requires charities to be aware of the various risks that they face, and to consider actively how they can mitigate them.

The Charity Commission has a unique vantage point on the risks that face the sector, as a data and evidence led regulator with:

- access to thousands of sets of accounts and annual returns from trustees
- insights from investigating hundreds of compliance concerns every year
- data from hundreds of contacts via our ‘report a concern about a charity’ service
- data from thousands of issues reported via our ‘Report a Serious Incident (RSI)’ service
- intelligence referrals from other government departments or statutory bodies

This report has been produced to provide an overview of potential risks to the sector at the present time, drawing upon the information above as well as horizon scanning and gathering of insights from sector bodies and others with knowledge of the sector.

Clearly, every charity’s exposure to these risks will vary. This report is produced to support trustees and charity leaders to understand the risk landscape and to support decision making. It illustrates the complexity of a sector intricately bound up in our society – operating in places where others cannot, and supporting some of the most vulnerable in our communities.

While any such exercise should be proportionate to a charity’s size and the nature of their operations, we encourage trustees to consider the risks below as they review their charities’ own risk registers, and to consult relevant Commission guidance as required.

A) Spotlight on key risks

1. Financial resilience

Summary

By its nature, charitable endeavour involves a careful balance of managing income and expenditure, and ensuring sustainable financial resilience will always be a core consideration for those running charities. However, there is growing evidence of a financial squeeze within the sector, with the difference between sector income and expenditure reduced by almost three-quarters over the last two years.

What our casework and analysis shows

Following the Covid-19 pandemic and national cost of living crisis, many charities reported financial pressures arising from increasing costs, increasing demand and falling donations. The sector responded impressively to these challenges in order to continue delivering vital services to beneficiaries – including by adopting new ways of working, embracing new forms of technology, and adopting innovative methods of fundraising.

Although these pressures have levelled out to some extent, financial resilience remains a core risk. Indeed, we have seen a shift during the past year towards other areas of concern:

- **Workforce costs** – Sector engagement has highlighted concern about how increasing employment costs and tax changes will impact charities, particularly those with large numbers of staff or those that are also facing reduced income. Annual return data suggests that larger charities (with over £500k income per year) spent 23% more on delivering their charitable aims in 2023 compared to 2019. Increased costs may lead to adjustments of staffing levels if increased funding or income is not available, impacting service provision.
- **Challenges in securing sustainable public funding** – While government funding to the sector through contracts increased overall during the financial year ending 2023 (from £9.1bn to £10bn), the average value of contracts received per contracting charity remained broadly static (from £1.43m to £1.41m) against an inflationary backdrop. Many smaller charities, though, are party to much smaller scale contracts for their services, and the average value of contracts awarded to charities with a total income of under £25k dropped by more than 6%, compared to a sector average of around 1% between 2022 and 2023. Indeed, sector representatives report that some charities are withdrawing from contracts which fail to cover their costs or are having to make good on the shortfall themselves, resulting in an impact on other services.
- **Increasing demand for services** – The growth in charities' expenditure, feedback from the sector, and our public research all confirm that demand for charity services, particularly those supporting the most vulnerable, continues to increase. The Commission's latest research shows that in the last year 9% of the public received food, medical or financial support from charitable organisations, compared to just 3% five years ago.

Larger charities spent
23%
more on delivering
their charitable aims in
2023 compared to 2019

42.6% of charities reported expenditure that exceeded income in their 2023 Annual Return, up from 38.3% in 2022. This does not mean they are insolvent, and in some cases may reflect a strategic decision to use reserves to cover particular costs. However, the 2023 data continues a general trend of a steadily increasing number of in-year deficits that we have seen over the last five years, with charities drawing from reserves to bridge the gap.

2023 Annual Returns show that income to the sector increased when compared to the previous year's returns, but expenditure increased at a faster rate. The gap between overall income and expenditure reduced significantly (by 77%, from £3bn in the previous year to £701m), meaning many charities have little or no headroom for investing in longer term or riskier projects, and as

noted above, an increased number are spending more than they receive and drawing from reserves to continue operating.

42.6%

**of charities reported
expenditure that exceeded
income in their 2023
Annual Return**

It is worth noting that Annual Return data is a 'lagging indicator' because the information it captures is relatively dated. From our extensive sector engagement we know that many charities currently face considerable financial challenges.

While volumes of charity closures have not increased significantly, the number of Commission cases involving charities in insolvency or financial difficulties nearly doubled from 98 cases in 2022-23 to 184 in 2023-24. While this is a very small proportion of the total register of around 170,000 charities, the number of insolvency cases where financial

resilience was cited as a material factor also increased more than fourfold from 15 in 2022-23 to 72 in 2023-24. Charities are only likely to consider closure or report insolvency once their situation has become irreparable.

Smaller charities are at particular risk according to our data. Collectively, charities with an income under £500,000 saw their outgoings exceed income.

What trustees can do to mitigate this risk

Although the Commission cannot directly solve charities' financial problems, we encourage trustees to consult our suite of online guidance on financial issues. We will also continue to do all we can to support charitable giving from the public, given its central importance to the resilience and independence of the sector.

It is important that trustees continue to understand and comply with their duties to provide effective financial stewardship. One of the most important things they can do is plan and act on any 'early warning indicators' to help manage finances whilst they still have a range of options.

Key actions include:

- ensure you take the time to sufficiently plan your year ahead with income forecasts aligned with operating costs
- ensure your financial reporting is fit for purpose, regular and provides the level of detail to enable trustee decision making
- regularly review your financial forecasting to determine any variations to cost or revenue expectations to enable early intervention where appropriate

- consider if there are opportunities to deliver your charitable purpose more efficiently – for example, through joint ventures, collaborative bids, mergers or a combining of back-office functions with other charities

Please use our collection of guidance on:

- **Managing charity money, assets and property**
- **Improving your charity's finances**
- **How to merge charities**

Sector umbrella bodies and local infrastructure charities continue to provide advice, support and networking to help charities with various financial matters, such as fundraising strategies and options for diversification.

2. Risks to public benefit

Summary

A charity must operate for the public benefit, not for the private benefit of those associated with it. Some charities are deliberately targeted by bad actors, while elsewhere wrongdoing may occur more opportunistically or by mistake. Compliance cases opened by the Commission based on alleged abuse of charities for private benefit have risen 23% over the last financial year, though they still represent a very small percentage of charities.

What our casework and analysis shows

The vast majority of charities are run and supported by dedicated trustees, volunteers and donors who freely give their time and money for a cause in which they believe. The majority of charities operate without any issues arising that would give the Commission cause for concern.

However, a small number of charities are deliberately targeted by, or even set up by (or attempted to be set up by), bad actors for private benefit – which might include misuse of charity property, taking unauthorised payments, falsely claiming Gift Aid or other funding, and sophisticated methods of tax avoidance or evasion. Whilst the number is small overall, the impact such cases can have on public trust and confidence in charity can be significant.

The Commission applies robust scrutiny and verification in the assessment of applications for charitable status, and only around half (53%) of the applications received by the Commission are granted charitable status. In the last year the Commission identified a significant number of sham applications, where an attempt was made to establish a charity under false pretence, albeit this formed a very small proportion of all applications received.

Our 2023-24 data reveals an upward trend in the total number of cases we have seen related to concerns about charitable status being abused for private benefit, from 390 cases in 2022-23 to 479. We have also seen an increase in complaints to the Commission about this issue from members of the public, from 23 referrals in 2022-23 to 67 in 2023-24 (though this could feasibly reflect an increase in public awareness rather than an increase in incidence).

Our casework shows three broad areas in which concerns about private benefit can arise:

- **Deliberate abuse of charitable status** – For example, where there are attempts by individuals and organisations to register multiple charities as part of organised criminal enterprises in order to diversify and legitimise other activities.
- **Dominant individuals** – Where one individual dominates a charity, and this affects the proper oversight or challenge from the trustee board, this can leave the charity vulnerable to the dominant individual seeking to derive personal benefit. Around 11% of charities report having only one or two trustees, according to 2023 Annual Returns. This does not necessarily mean they are inquorate, but if not carefully managed very small trustee boards have the potential to increase risk factors relating to dominance, lack of independence and conflicts of interest.

23%

rise in compliance cases opened by the Commission based on alleged abuse of charities for private benefit

- **Lack of knowledge or understanding among charity personnel** – Charities may leave themselves open to abuse where there is a lack of knowledge or understanding of the rules and requirements they face. This may be the case particularly for charities operating in a complex regulatory framework.

What trustees can do to mitigate this risk

The Commission aims to provide clear, relevant information and support to help build understanding of what it means to be an effective trustee. Where we uncover wrongdoing that harms an individual charity and diminishes the reputation of charity, we will be robust in using our powers to secure the right outcomes to protect beneficiaries, charitable resources, staff, and donors.

Key actions include:

- ensure financial controls are fit for purpose with no single individual able to access charity funds or assets without appropriate checks, balances and oversight
- ensure regular reviews of financial and asset transactions including payments from charity bank accounts
- before any payments are made to trustees, ensure they are lawful (either permitted under your governing document or with prior permission from the Commission) - and that any decision has been made following our guidance on conflicts of interest whilst ensuring that decisions are recorded with their reason, rationale, how it is in the best interests of the charity and how payment was approved
- ensure that you are aware of the key duties and responsibilities of being a trustee and follow good practice as found in the Commission's guidance below
- ensure that you know what your charity's purposes are and understand how each purpose is for the public benefit
- remain vigilant to protect and safeguard your charity's assets and ensure it is not open to abuse or misuse. Identify and address effectively any conflicts of interest that affect your charity
- trustees, employees and volunteers can report to us any concerns they have about issues arising in their charity, using our serious incident reporting and whistleblowing systems

Please use our collection of guidance on:

- **Public benefit: running a charity**
- **Conflicts of interest**
- **Payments to trustees**
- **Trustee duties**
- **Meetings**
- **Decision making**

B) Other threats and risks

In addition to the two spotlighted risks above, we currently consider the following to be the other significant ongoing threats facing the sector that are of particular regulatory interest.

1. Governance risks

Governance risks can be a contributing factor to many other risks facing charities, so addressing these issues can help charities avoid wider problems.

Despite the best efforts of trustees to recruit others to join them in their demanding but rewarding role, some charities have reported challenges in recruiting sufficient numbers of trustees to provide effective governance.

We have also observed issues related to federated charities, such as the potential for disputes within federations and challenges for 'parent' charities in overseeing the effective implementation of policies within their branches.

A further issue that the Commission has identified relates to the management of community assets by local authorities. The Commission has seen concerns arise in cases where, for instance, councils are unaware that they are a trustee of a charity or do not keep separate accounts for the charity. The Commission issued **specific advice to local authorities** on these matters in August 2024.

Relevant Commission guidance:

- **The essential trustee**
- **Decision making**
- **Running effective meetings**
- **Finding trustees**



2. Safeguarding risks

There is wide awareness across the sector of the importance of taking safeguarding seriously. However, the harm that can occur when things go wrong is significant.

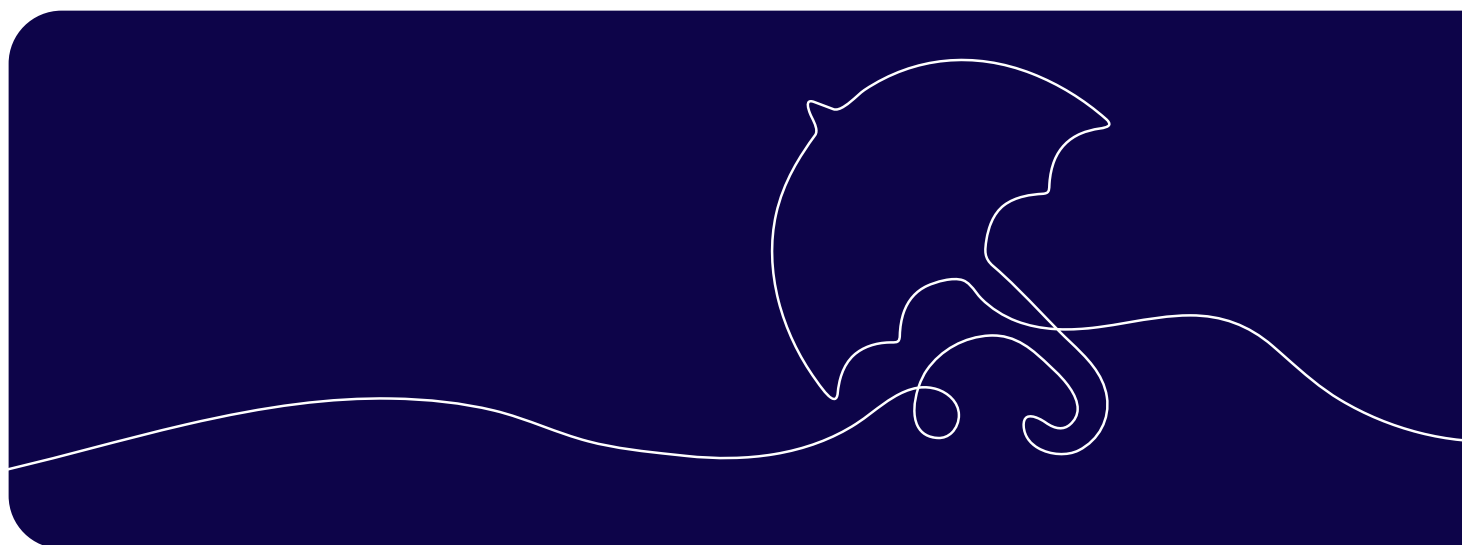
The Commission has a specific role with regard to safeguarding, which is to ensure that trustees comply with their legal duties and responsibilities so that charities are a safe and trusted environment. Safeguarding incidents must be referred to the relevant agency for investigation. However, any failure by trustees to manage safeguarding risks adequately is a serious regulatory concern to the Commission.

Safeguarding responsibilities extend beyond the charity's beneficiaries to ensuring a safe environment for charities' volunteers and staff. Increasingly, those working for charities have been targeted online (see social tensions, below). The Commission's social media guidance encourages trustees to plan for such eventualities.

During the year, some feedback from sector stakeholders has suggested an emerging issue of technology being used to perpetrate safeguarding harms, such as through the use of deepfake photos and videos. Whilst we have seen limited examples in our own casework so far, there is the potential for charities to be affected, particularly within education settings.

Relevant Commission guidance:

- **Safeguarding and protecting people for charities and trustees**
- **Charities and social media**



3. Fraud and other financial risks

Most charities will not encounter problems relating to fraud, but it is important for trustees to consider any risks both internally and externally, with evidence suggesting that around half of frauds perpetrated against a charity are committed by individuals within the organisation.

Our casework analysis indicates that external frauds mostly target those charities with high incomes and are opportunistic in nature. Risks of weaknesses in financial governance may be increased during periods of stretched resources for charities, particularly amongst small and medium sized charities.

Larger charities, meanwhile, are subject to changes in the law, with a new offence of 'failure to prevent fraud' taking effect in September 2025. The Commission issued a **regulatory alert** on this issue earlier this year.

Relevant Commission guidance:

- **Protect your charity from fraud**
- **Internal financial controls for charities**



4. Emerging technology and cyber risks

Emerging technology provides both opportunities and challenges for charities. Many charities are engaging with generative artificial intelligence (AI) to aid administrative and communications-based tasks – this can help charities free up valuable time spent on resource-intensive tasks. At the same time, many charities are rightly more cautious when it comes to applying technology to decision-making, which presents a range of legal and ethical risks.

Trustees should explore both the possibilities and risks of new technologies. For our part, the Commission will continue to engage with the sector to consider these matters further.

As in all other organisations – and notably highlighted through recent incidents involving retailers' online services – cyber-harms represent a risk for charities. While we have seen limited direct evidence of this through our casework as yet, sector representatives have highlighted concerns about attempts at phishing and 'social engineering' (manipulating somebody to make them more susceptible to fraud).

Relevant Commission guidance:

- **Protect your charity from cyber crime**
- **Blog post: Charities and Artificial Intelligence**



5. Social tensions

Many charities engage in public debate on issues related to their charitable objects, including through campaigning and political activity. These can be powerful ways for charities to speak up for the causes they serve, and the Commission has been clear about charities' rights to engage in such activity within the confines of charity law and where charities can show how potentially controversial messaging furthers their charitable purpose.

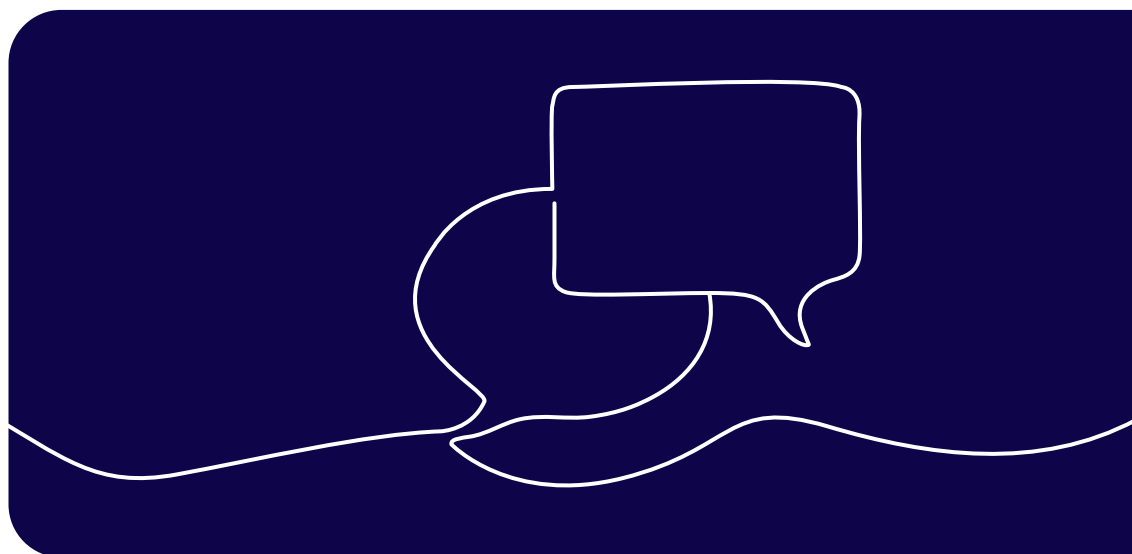
While it is not unusual for charities to be impacted by societal tensions and engaged in tackling their causes and consequences, a number of factors are currently contributing to a challenging climate. This is due not least to the proliferation of mis/disinformation and the polarised nature of social media, which can see charities become targets of criticism and in some cases has resulted in charities themselves engaging in inappropriate social media communications.

Misinformation relates to onward sharing of misguided information while disinformation relates to deliberate attempts to misinform. Both can either be generated by third parties about charities – including from overseas sources, for example those with large social media followings – or on occasions by charities themselves.

Regardless of the form they take, misinformation and disinformation present risks to public trust in the sector. Charities are usually best placed to use their communications channels to address incorrect information, but where appropriate the Commission will also step in. Charities should take care to ensure that information they share is factually accurate, which also helps build trust among audiences for any occasion where the charity needs to 'debunk' incorrect claims about their work.

Relevant Commission guidance:

- **Charities and social media**
- **Campaigning and political activity guidance for charities**



6. Charities operating overseas

Charities operating overseas may face additional risks, particularly those working in challenging circumstances such as conflict zones or areas affected by natural disaster. There may be safeguarding risks arising from operating in a politically unstable region, or financial risks linked to sending money overseas.

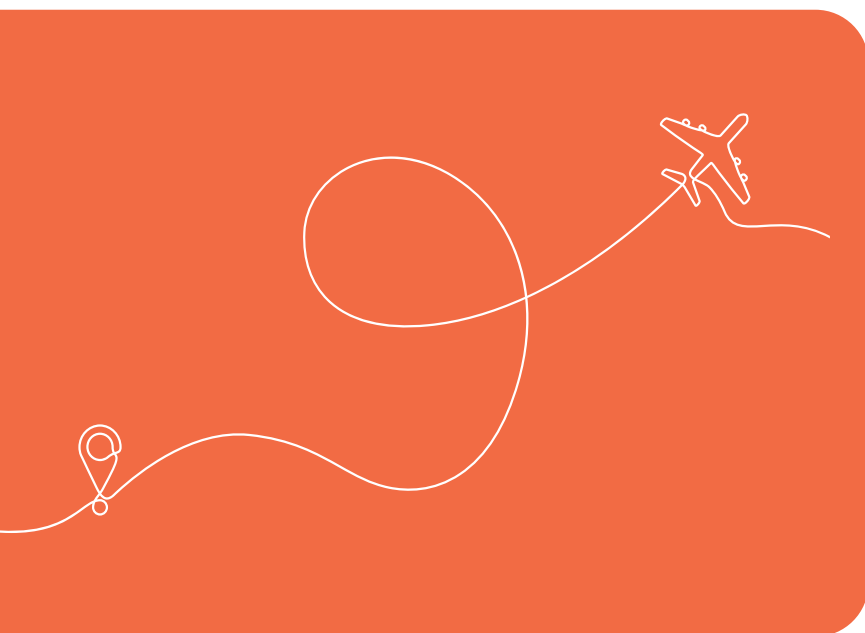
These charities' finances are also likely to be sensitive to global events and will be impacted by decisions of national governments relating to overseas development budgets.

During the last year we opened and handled cases related to charities operating internationally in areas where terrorist groups are known to operate, including Gaza, Syria, Lebanon, Yemen and Afghanistan. Within these countries, monitoring and oversight can be challenging, and charities rightly have to deploy considerable resources to ensure they are meeting all their legal duties. The Commission actively supports charities operating in such areas to test their procedures and controls, and we have recently published a collection of advice drawn from across government sources for those operating in the Middle East.

Charities operating overseas may find the **briefings organised by the Commission's Charity Engagement Team** of value. The list of future dates is updated regularly.

Relevant Commission guidance:

- **Charities: how to manage risks when working internationally**
- **Charities operating in the Middle East: guidance and support for trustees**



7. Geopolitical turbulence

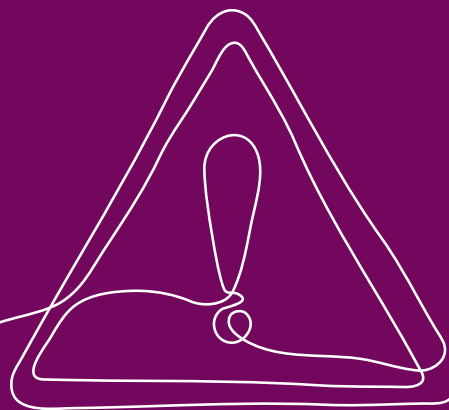
In addition to a direct impact on the work of charities providing aid or other services in regions hit by war or political unrest (noted above), international conflicts can lead to heightened community tensions here in the UK. Charities must never become vehicles for hate and must not allow their premises or events to become forums or safe havens for terrorism, extremism or hate speech. The Commission will always deal robustly with those who intentionally or recklessly abuse their charities, and we will not hesitate to take action where there is wrongdoing.

For instance, since the terrorist attack on Israel in October 2023 and the subsequent war, we have opened over 300 regulatory cases involving charities with differing views on the conflict, and made over 70 referrals to the police where we consider that a criminal offence may have been committed.

Conversely, we know that geopolitical tensions can impact charities in a way over which trustees can have little control. It is important for trustees to develop a good understanding of risks and potential mitigations, particularly where funding or infrastructure upon which the charity relies is dependent on international parties.

Relevant Commission guidance:

- **Collection: Your charity's activities**
- **Charities and risk management**
- **Campaigning and political activity guidance for charities**



8. Hostile foreign states

Related but distinct to the risk above, hostile foreign states may seek to gain influence in the UK by using charities as a vehicle for promoting their worldview.

The Director General of MI5 recently set out **his agency's assessment of current national security threats**, highlighting ongoing efforts by autocratic states – including Russia and Iran – to attack aspects of this country's democracy and civil society. Sadly, charities are not immune from such threats, particularly where they operate in the field of human rights.

The Commission is alive to these threats and works with other agencies to protect the sector from the risks of being exploited. For instance, following Russia's invasion of Ukraine, the Commission worked at pace to protect charitable assets and monitor the risks to charities. We took action to safeguard charities linked to sanctioned individuals, which has led to the protection of over £100 million in charitable assets.

Relevant Commission guidance:

- **Charities: due diligence, monitoring and verifying the end use of charitable funds**



Conclusion

Charting the risk landscape comprehensively presents its own risk of overwhelming charities, many of which are small operations run entirely by volunteers. The Commission's role as regulator is to present a high-level picture of the threats we see facing the sector now or in the future, in order to help trustees take proportionate steps within their own context to prepare.

Our assessment above indicates a challenging environment for charities. But having been in existence for almost 175 years, the Commission stands testament to the extraordinary resilience of the sector it regulates: a sector which adapts to its climate with determination, in pursuit of its charitable objectives at home and abroad.