

Review of Financial Thresholds in Charity Legislation

Lead department	Department for Culture, Media and Sport
Summary of proposal	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 Law Commission's 2017 report recommended that the government periodically review all financial thresholds in the Charities Act 2011 with a view to increasing them in line with inflation. The government accepted this recommendation and plans a bespoke approach.
Submission type	Impact Assessment
Legislation type	Secondary legislation
Implementation date	
RPC reference	RPC-DCMS-26123-IA(1)
Date of issue	19.02.2026

RPC opinion

Rating¹	RPC opinion
Fit for purpose	The Department establishes a credible rationale for intervention – to prevent regulatory failure caused by regulation which is out of date and encourages charities to comply with regulation which is burdensome and disproportionate to their size. The IA presents a long-list of three options that were considered ahead of the consultation. The IA provides a good monitoring and evaluation plan.

¹ The RPC opinion rating is based only on the robustness of the rationale, options identification (including SaMBA) and justification for preferred way forward, as set out in the [Better Regulation Framework guidance](#). RPC ratings are fit for purpose or not fit for purpose.

RPC summary

Category	Quality²	RPC comments
Rationale	Green	The Department establishes a credible rationale for intervention – to prevent regulatory failure caused by regulation which is out of date and encourages charities to comply with regulation which is burdensome and disproportionate to their size. 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.
Identification of options (including SaMBA)	Green	The IA presents a long-list of three options that were considered ahead of the consultation. The Department states that all options, except for 'Do nothing,' are intended to be largely deregulatory measures designed to reduce the administrative burden on charities within the current regulatory environment. The IA provides a sufficient SaMBA that is supported by quantitative evidence on the impacts on micro, small and medium sized businesses.
Justification for preferred way forward	Green	The IA provides a proportionate assessment of the impacts, considering the impact on business (charities), consumers and the public sector (the Charity Commission). The policy is deregulatory and will create savings for the charity sector.
Regulatory Scorecard	Satisfactory	The impact on total welfare is positive. The main positive impact on social welfare stems from the reduction in administrative burden on charities. The best estimate for the total Net Present Social Value (in 2025 prices) over the 10 year appraisal period is £406.7 million. The IA would benefit from including additional qualitative analysis to support the ratings in Part B of the scorecard.

² The RPC quality ratings are used to indicate the quality and robustness of the evidence used to support different analytical areas. The definitions of the RPC quality ratings can be accessed [here](#).

Monitoring and **Good**
evaluation

The IA includes a timeline for the Post Implementation Review, a list of research questions and specific metrics that could be used to assess whether the preferred option has met the policy objectives.

Summary of proposal

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 with a view to increasing them in line with inflation. The government accepted this recommendation.

The IA has considered four short-list options for intervention:

- Option 0 (Do nothing): Retain the current financial thresholds.
- Option 1: Update all thresholds in line with Consumer Price Index - Housing (CPIH).
- Option 2: A 20% increase was applied to certain thresholds from their baseline to maintain a balance between proportionality.
- Preferred Option: A bespoke approach was taken for each individual threshold, with the decision to either retain the original threshold or adjust for the inflationary increase based on the consultation response and views from charity stakeholders.

The preferred option was chosen as it is likely to best achieve the policy objectives as it strikes a balance between reducing the administrative burden the thresholds place on charities and maintaining a proportionate and effective regulation of the sector.

Rationale

Problem under consideration and argument for intervention

The Department explains that there are existing thresholds that determine the level of accounting and reporting that charities are required to undertake based on their income levels. It is important to regularly review the financial thresholds to ensure the regulatory requirements remain proportionate and charities are transparent and accountable. In the Government response to the 2017 'Technical Issues in Charity Law' report, the Department committed to review these thresholds every 10 years.

The IA provides a clear explanation of the importance of reviewing these thresholds during periods of high inflation. The IA includes quantitative statistics on CPIH inflation to show that real incomes are lowered, and more charities are being captured by thresholds designed for larger charities. This establishes a credible rationale for intervention – 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.

The IA states that there are two key problems under consideration relating to the current regulatory landscape for charities and the wider sector. These are:

- Increased administrative burden on charities.
- Saturated auditing and independent examination market.

The Department sets out the limitations of the current legislative framework and supports this with quantitative evidence from both the charity and auditing sectors.

The IA would benefit from additional narrative to explain why the Department has been selective in which thresholds they intend to change.

Objectives and theory of change

The IA sets out an overarching policy objective – to address the problem under consideration, so that charities can more efficiently use their resources.

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. The objectives would be strengthened if the Department were to develop them further using the SMART framework, for example by providing examples of specific metrics to demonstrate the measurability.

The discussion of policy objectives is inconsistent, with the Department later stating that there are ‘three main policy objectives.’ The Department should ensure that the objectives have been discussed in full in the relevant section of the IA.

The Department has outlined some intermediate steps that would be undertaken to achieve this objective. The IA would benefit from including a theory of change or logic model diagram that shows the inputs, activities, outputs, outcomes and impacts. The Department could also consider whether the intervention could support any wider Departmental priorities.

Identification of options (inc. SaMBA)

Identification of the ‘long-list’ of options

The IA presents a long-list of three options that were considered ahead of the consultation.

- Option 0 (Do nothing): Maintain the existing thresholds.
- Option 1: Update all thresholds in line with inflation measured using the Consumer Price Index - Housing (CPIH).
- Option 2: Increase thresholds by 20% from their baseline. This smaller increase, compared to an inflationary uplift, reflects that charities’ incomes have risen at a lower rate than inflation. It also aims to reduce the burden on

smaller charities while still ensuring a proportionate level of data and regulation for the sector.

The Department states that other inflation measures were considered. The IA could benefit from using the Green Book's Strategic Options Framework Filter to develop the long-list in more detail and demonstrate how scope, solution, delivery, implementation and funding was considered. This should include discussion of any other options that were considered, but discarded, prior to the consultation.

Consideration of alternatives to regulation

The Department states that all options, except for 'Do nothing,' are intended to be largely deregulatory measures designed to reduce the administrative burden on charities within the current regulatory environment. As a result, the IA does not consider any further non-regulatory options.

The Department notes that co-regulation and self-regulation are not possible but should include additional narrative to explain why this is the case.

Justification for the short-listed options

The Department has used a RAG scoring system to assess the extent to which each long-list option meets the three main policy objectives. Where an option has been discarded at the long-list stage and has not been carried forward to the short-list, the IA provides a qualitative explanation of why the option would fail to meet the objectives. The IA would benefit from also assessing the long-list options against the Green Book's Critical Success Factors.

The IA presents one short-listed option, explaining that this is based on Option 1 (which was identified as the preferred option before consultation) but was adapted following consultation to take a bespoke approach to individual thresholds, based on the views of charities and other stakeholders. The Department states that this option meets two of the three main policy objectives but could explain why it was not possible to construct an option that would meet all three.

The Department should include the 'business as usual (do-nothing)' option within the short-list.

SaMBA and medium-sized business (MSB) assessment

The IA provides a sufficient SaMBA that is supported by quantitative evidence on the impacts on micro, small and medium sized businesses. The Department explains that around fifty percent of familiarisation costs and annual benefits will be borne by small businesses. The familiarisation cost per charity is estimated to be £24.

The IA explains the methodology used as part of this assessment. Charities are categorised by annual revenue instead of number of employees due to a large amount of the workforce being volunteers.

The Department has considered proposals to mitigate the cost burden on these charities; concluding that it would be appropriate to produce guidance aimed at small and micro businesses to support them in understanding the changes in legislation.

The IA demonstrates that the significant annual benefits of the proposed policy will outweigh the implementation costs. Therefore, to exempt small and micro and medium-sized businesses would have a negative impact.

Justification for preferred way forward

Identifying impacts and scale

The IA provides a proportionate assessment of the impacts, considering the impact on business (charities), consumers and the public sector (the Charity Commission).

The legislation is deregulatory and is expected to deliver net benefits to business, as higher thresholds will result in fewer charities being required to submit accounting data. The Department has sufficient data available to provide monetised estimates for the main impacts. The appraisal appropriately sets out indicative estimates where feasible and explains underlying assumptions transparently.

The IA sets out the costs, benefits, NPV and EANDCB for the preferred option, which is the only short-listed option.

Appraisal of the shortlisted options

The IA presents costs and benefits in 2025 prices and 2025 present value base year. All impacts on charities are considered business impacts and have been included in the EANDCB. The Department uses a standard 10-year appraisal period, but the review period for the update to the regulations will be three years, running from 2028 to 2031.

In Table 7 and Table 8, the Department outlines clearly which costs are direct and indirect, to whom they apply and whether they have been monetised. The Department monetises two costs:

- One off familiarisation costs to charities
- One off familiarisation costs to the Charity Commission

The Department monetises four benefits:

- Charities no longer needing to produce a Statement of Accounts
- Charities no longer requiring an Independent Examination
- Charities no longer requiring a Qualified Examination
- Charities no longer requiring an Audit

The Department has outlined the methodology and evidence that has been used within the analysis, such as number of stakeholders impacted, familiarisation time

and hourly wage rates. However, the IA may underestimate familiarisation time and the associated senior-level input required, particularly given the reputational risks of incorrect implementation. The Department has summarised the underlying evidence helpfully in a table of assumptions. The IA explains that it would not be proportionate to undertake further sensitivity analysis but would benefit from explaining why the lower and upper quartiles have been selected as the ‘low’ and ‘high’ estimates.

The Department has described the possible risks and unintended consequences within the IA. This analysis is presented in a table that details the scale, likelihood of risk and potentially approaches to mitigation.

Selection of the preferred option

The Department provides a detailed breakdown of the consultation findings to justify the design of the preferred option. Overall, the department has provided sufficient justification for the preferred option that was presented at consultation and has helpfully explained how the consultation responses were used to develop the final policy proposal, which has been appraised using monetised cost-benefit analysis.

The Department explains that the preferred option meets two of the three main policy objectives – to maintain the level of intended regulation and to align thresholds across the charity sector.

The policy is deregulatory and will create savings for the charity sector.

Regulatory Scorecard

Part A

Total welfare impacts

The impact on total welfare is positive. The main positive impact on social welfare stems from the reduction in administrative burden on charities. The best estimate for the total Net Present Social Value (in 2025 prices) over the 10 year appraisal period is £406.7 million.

The Department has monetised the reduction in administrative burden to charities. In addition to this, the Department has provided a qualitative assessment of other impacts such as the reinvestment of savings into the social impact of charities and reduced data granularity on charities.

Impacts on business

The preferred option is expected to have a positive impact on businesses, driven by the reduction in administrative burdens for charities. The policy is deregulatory and will create savings for the charity sector. The Equivalent Annual Net Direct Cost to Business (EANDCB) is -£47.2 million.

The only direct cost to business is the one-off familiarisation cost incurred by all charities and the Charity Commission in the first year, equal to £5.3 million.

The Department has considered whether the reduction in demand for auditing from charities will have an impact on auditing firms, concluding that there would not be a severe impact given the current capacity constraints in the market.

Impacts on households, individuals or consumers

The preferred option is expected to have a minimal positive impact on households. The Department states that there are expected to be no direct impacts to households. As a result, the IA does not present a Net Present Value to households or an EANDCH figure. The Department provides a brief qualitative statement on the positive indirect impact of improved quality and efficiency of charitable services from the lower administrative burden.

Part B

The Department considers the impact on the UK business environment to be positive. The Department states that the policy is deregulatory and will remove administrative burdens on approximately 22,000 charities. This will allow them to redirect the savings to core charitable activities.

The Department indicates that the international impact of the policy is neutral, stating that there are not expected to be any significant impacts as a result of this deregulation. The IA would benefit from including additional qualitative analysis to support this statement.

The Department considers the impact on natural capital and decarbonisation to be neutral, stating that there are not expected to be any significant impacts as a result of this deregulation. The IA would benefit from including additional qualitative analysis to support this statement.

Monitoring and evaluation

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 the thresholds will be reviewed separately by 2031, to assess whether the policy objectives are being met.

The Department intends to use the evaluation to assess the on-going costs and benefits following implementation, understand the outcomes and impacts associated with the regulatory change and to identify any unintended consequences (whether positive or negative). This will be conducted by DCMS working with key stakeholders including the Charity Commission and other charity stakeholders.

The IA includes a timeline for the Post Implementation Review, a list of research questions and specific metrics that could be used to assess whether the preferred option has met the policy objectives. The Department has also considered how risks

and unintended consequences, such as an increase in financial fraud, could be assessed.

Other Comments

The Committee notes that the IA is very clearly written and succinct and would like to commend the Department for this.

Regulatory Policy Committee

For further information, please contact enquiries@rpc.gov.uk. Follow us on X [@RPC_Gov_UK](https://twitter.com/RPC_Gov_UK), [LinkedIn](https://www.linkedin.com/company/rpc) or consult our website www.gov.uk/rpc. To keep informed and hear our views on live regulatory issues, subscribe to our [blog](#).