



Financial Thresholds in the Charities Acts Proposals for Change

Joint consultation by



CabinetOffice
Office of the **Third Sector**





Contents

	Foreword	5
1	Executive summary and questions	7
	Background	7
	Summary of recommendations	9
	List of questions	12
2	Background	15
	Who are we?	15
	Charity regulation	15
3	Overall approach	17
	Improving regulation	17
	All comments welcome	18
4	The Charities Acts and the case for change	19
	The case for change	19
	The case for making changes now	20
5	Main recommendations on individual thresholds	21
	Preparing accounts and sending them to the Charity Commission and on request to the public	21
	The Trustees Annual Report	21
	Preparation of accruals accounts	24
	External scrutiny of small charities' accounts	24
	Audit	25
	Qualified Independent Examiner	26
6	Other recommended changes	27
	Need to include registered status on documents	27
	Recovery of costs of proving title to rentcharge	27
	Fund-raising (1992 Act)	27

7	Other issues considered	29
	Registration thresholds	29
	Annual Return	29
	Summary Information Return	31
	Annual reporting cycles	31
	Small charity thresholds	31
	Remaining thresholds	32
	Dual accounts submission	32
8	Next steps	33
9	How to respond	34
	Annexes	
	1 Financial thresholds after the 2006 Act and impact of possible changes	37
	2 Impact Assessment	43

Foreword

The Charities Act 2006 was a significant milestone for charities. One of its aims was to deliver more proportionate regulation and reduce administrative burdens on charities. We have already seen a raising of the mandatory registration threshold for small charities, from £1,000 to £5,000, and significant increases in the audit thresholds for charities. Further de-regulatory changes will come into force early in 2008. However, the search for better ways to regulate charities did not stop with the passing of the Charities Act. We are carrying out this consultation to review all the regulatory and reporting thresholds in the various Charities Acts. This consultation paper fulfils a commitment made in Parliament during the passage of the Charities Bill to review financial thresholds in the Charities Acts a year after Royal Assent.

This is a joint consultation by the Charity Commission and the Office of the Third Sector. The Office of the Third Sector is responsible for the legal and regulatory framework for charities in England and Wales. The Charity Commission is the independent regulator of charities in England and Wales. Both the Government and the Charity Commission want to ensure that the legal and regulatory framework helps charities to develop their activities and services to play an increasing role for good in society.

The proposals in this paper have been designed to achieve proportionate regulation, balancing the need to minimise regulatory burdens without

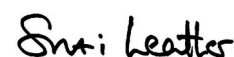
compromising the fundamental importance of charities' transparency and accountability. We believe that the proposals set out here achieve that balance, but we need to know whether you agree. We would also like to hear suggestions from you if you think that charity regulation could be improved by other changes to thresholds in the Charities Acts.

Nearly three-quarters of registered charities would benefit from a reduced burden if the recommendations in this paper were to be implemented. Smaller charities would see the most significant benefits. For example, 118,000 charities would benefit from the recommendation to introduce a preparation threshold of £25,000 for the Trustees Annual Report.

We look forward to hearing a broad cross-section of views from charities, other stakeholders and the general public.



**Phil Hope MP
Minister for the
Third Sector**



**Dame Suzi Leather
Chair, Charity
Commission**



1. Executive summary and questions

Background

1.1 This consultation is part of a review being conducted jointly by the Office of the Third Sector and the Charity Commission that fulfils a government commitment to review thresholds in the Charities Acts a year after Royal Assent of the Charities Act 2006. This paper discusses these thresholds, makes recommendations for change and invites comments from anyone interested in the regulation of charities. The proposals affect English and Welsh charities. In most cases the Minister for the Cabinet Office has the power to amend the thresholds.

1.2 There are 168,000 main charities on the Charity Commission's register. Nearly 75% will benefit from a reduced burden if the recommendations in this paper are implemented.

1.3 We estimate that another 16,500 currently unregistered charities would also benefit from the proposals.

1.4 Charities are subject to a wide range of general regulation that is applicable to all organisations and not specifically aimed at charities. This includes, for example, health and safety measures and employment law. These regulations are outside the scope of this review.¹

1.5 Charities are also covered by requirements aimed specifically at them, many of which include financial thresholds rather than adopting a one-size-fits-all approach. These thresholds are the focus of this review, which aims to improve the regulation of charities by simplifying the various thresholds to ensure more proportionate regulation.

1.6 During the passage of the Charities Bill, the Minister (Lord Bassam of Brighton) made a commitment in the House of Lords to there being a review of all thresholds in the Charities Acts a year after Royal Assent of the Charities Act 2006, and to publish proposals for public consultation. This was in response to the Opposition spokesman on the Charities Bill (Lord Hodgson of Astley Abbots) who argued for simplification and increases of various thresholds in the Charities Acts. While sympathetic with some of the deregulatory ambitions, we wanted to ensure that there was proper consultation on any proposals.

1.7 The Better Regulation Task Force's 2005 report *Better Regulation for Civil Society* suggested that the Charity Commission's regulatory approach was not a significant issue for many charities but did note that there was evidence that it was the smallest charities that found it most burdensome. We are particularly keen therefore to find ways to ease the burden on small charities.

1.8 In drawing up these proposals our aim is to reach a consensus on an appropriate range of thresholds that represents the minimum level of regulation necessary, without compromising the fundamental importance of charities' transparency and accountability in upholding public trust and confidence in charities and their work.

¹ If you have any suggestions for improving regulation in these areas they can be submitted to the Better Regulation Executive via www.betterregulation.gov.uk/

1.9 Charity regulation must strike the right balance between the interests of charities and those of other stakeholders including the general public. So we would encourage everyone with an interest in charities to let us know what they think about the issues raised in this consultation and whether they believe we have achieved the right balance.

Review of thresholds

1.10 We have reviewed all the thresholds in the Charities Acts using the following criteria as guidelines:

1. There is a logical case to be made for the change
2. It would reduce the administrative burden on charities and their trustees
3. It would simplify/rationalise the regulatory framework
4. It is consistent with maintaining an effective regulatory framework
5. It provides for transparent and accountable reporting

1.11 These criteria reflect our aspiration to ease the burden on charities and trustees, while maintaining an effective regulatory framework. Our overriding aim is to improve regulation and we recognise that there may be ways of doing so that do not meet all of the criteria.

1.12 We will therefore apply the criteria in a flexible and pragmatic way. Clearly, we could not accept proposals that did not meet the fourth criterion, but we would not reject a proposal for change simply because it did not meet the second or third.

All comments welcome

1.13 We do not want to limit comments and suggestions in any way. If you think that charity regulation would be improved by other changes to thresholds, please let us know, including a full explanation of why you think the change would be beneficial.

Summary of recommendations

1.14 Annex 1 lists all of the thresholds considered by the review, and the Impact Assessment in Annex 2 show the estimated savings produced by our recommendations. For ease of reference, the following table summarises the key recommendations in this paper.

Requirement	Current threshold ²	Recommendations	Impact of recommendation
Compulsory registration with the Charity Commission	Generally charities with income over £5,000	No change	N/A
Making an Annual Return to the Commission	Required by registered charities with income over £10,000	No change	N/A
Submitting annual accounts to the Commission	Required by registered charities with income over £10,000	Increase from £10,000 to £25,000	Around 23,000 charities would no longer be required to submit accounts Accounts submitted using the proposed new threshold would still cover 98% of registered charities' income
Trustees Annual Report (TAR): (i) Preparing a TAR (ii) Submitting a TAR to the Commission	(i) All registered charities must prepare a TAR (ii) Those with income over £10,000 must send it to the Commission	(i) Introduce a preparation threshold of £25,000 (ii) Increase submission threshold to £25,000	Around 118,000 charities would no longer have to prepare a TAR TARs submitted under the proposed new threshold would still cover 98% of registered charities' income

² Unless we say otherwise the thresholds covered by this paper relate to annual income. For ease of reference this paper often refers just to the income level. For example, "charities over £x,000" means "charities with a gross annual income of over £x,000".

Requirement	Current threshold ²	Recommendations	Impact of recommendation
External scrutiny of accounts of non-company charities ³	Charities with income over £10,000 must have their accounts externally examined (can choose an Independent Examination or audit)	(i) Increase from £10,000 to £25,000 (ii) Invite views on increase to £50,000	If increased to £25,000, around 37,000 charities would no longer be required to have their accounts externally examined (this affects more charities than the same rise for accounts submission because it also applies to excepted charities) If increased to £50,000 a further 23,500 charities would no longer be required to have their accounts externally examined
Preparation of accruals accounts by non-company charities	Charities with income over £100,000 must prepare accruals accounts	Increase from £100,000 to £250,000	Around 11,700 charities would be able to produce accounts in the simpler, less expensive receipts and payments format
Requirement to have accounts audited	Charities with income over £500,000 must have their accounts audited Charities with income greater than £100,000 but not exceeding £500,000 must have their accounts audited if their assets are worth more than £2.8 million (before deduction of liabilities)	No specific recommendation but we invite views on: (i) increasing the income threshold from £500,000 to £1 million (ii) increasing the trigger for the assets threshold from £100,000 to £250,000 (iii) increasing the assets threshold to £3.26 million	Making these changes would allow around 5,400 charities to opt for a simpler and less expensive form of external scrutiny of their accounts

³ Separate legislative changes are being made that mean small charitable companies will also be subject to these thresholds. These changes are likely to have been made by April 2008.

Requirement	Current threshold ²	Recommendations	Impact of recommendation
Need for Independent Examiner to be qualified	If a charity with income over £250,000 but no more than £500,000 opts for Independent Examination, it must appoint a Qualified Examiner	No specific recommendation but we invite views on: If the £50,000 income-based audit threshold is raised, should this lower £250,000 threshold also be raised? If so, what would be the right figure?	If this was changed to apply to charities with income over £500,000 but no more than £1 million, it would affect c4,500 charities. We are unable to estimate the savings but do not think that this change would have a significant impact on the sector as a whole
Requirement to refer to registered status on documents	Charities with income over £10,000 are required to say they are registered on certain documents	Increase from £10,000 to £25,000	Around 23,000 charities would no longer be required to include this information on certain documents
Costs of proving right to title of rentcharge	If a charity releases a rentcharge for no more than £500, these costs are recoverable from the other party	Invite comments on increase to £1,000	We are unable to estimate the impact but do not think that this change would have a significant impact on the sector as a whole
Definition of professional fund-raiser	The definition applies to an individual only if paid more than £5 a day or £500 a year	Double both figures to £10 a day or £1,000 a year	We are unable to estimate the savings but do not think that this change would have a significant impact on the sector as a whole
There is a qualified right to a refund of donations to broadcast appeals	Applies to donations of £50 or more	Increase from £50 minimum to £100	We are unable to estimate the savings but do not think that this change would have a significant impact on the sector as a whole

1.15 Implementation of these recommendations would reduce the reporting requirements and hence regulatory burden for 74% of registered charities and 15% of unregistered charities.⁴ More details on the effect of the proposals are in the Impact Assessment in Annex 2.

1.16 If all the recommendations in this review are implemented, the charitable sector would save £9.2 million a year.⁵ Some of this is expenditure on staff or accountants' or auditors' time, some of it is the value placed on voluntary work by the trustees and supporters of small charities, who would be freed up to devote more of their time to activities that more directly help charities achieve their aims.

List of questions

Question	Page
1. Do you agree that the criteria in paragraph [1.10 above] are sensible guidelines for this review and that they should be applied in a sensible and pragmatic way as outlined in paragraph [1.12 above]?	17
2. Do you think that the overall package of recommendations in this paper strikes the right balance between reducing the burden on charities and the effective regulation of charities?	18
3. Do you think our overall approach goes too far? If you do, would you say that the current thresholds should be retained or do you believe there is a case for reducing them? If the latter, what thresholds would you suggest?	18
4. Do you think that far more radical changes are justified? If you do, what major changes would you propose? Do you think there are any general limits? For example, should routine reporting focus exclusively on large charities? If so, what thresholds would you suggest?	18
5. Do the proposals have an adverse impact on any group in society? Do they have an adverse impact on a particular group of charities, or their beneficiaries?	18
6. Do you agree that there should be no change to the requirement for all charities to prepare accounts and make them available to the public on request?	21
7. Registered charities with income over £10,000 must send their annual accounts to the Commission. Do you agree that this £10,000 threshold should be raised? If you do, is £25,000 the right figure?	21

⁴ Unregistered charities do not have to prepare a Trustees Annual Report (TAR) and so would not benefit from the proposed changes affecting the TAR.

⁵ In addition to specific recommendations, the consultation invites comments on further changes. If these were implemented they would save the sector a further £1.6 million a year.

Question	Page
8. Registered charities with income over £10,000 must send their Trustees Annual Report to the Commission. Do you agree that this £10,000 threshold should be the same as the threshold for sending accounts to the Commission? If you do, is £25,000 the right figure?	22
9. All registered charities must prepare a Trustees Annual Report (TAR). Do you agree that a TAR preparation threshold should be introduced to ease the burden on small charities? If you do, is £25,000 the right figure, or should the level be the same as the registration threshold (£5,000) or another figure such as £10,000?	23
10. Charities with income over £100,000 must prepare accruals accounts. Do you agree that this £100,000 threshold should be increased? If you do, is £250,000 the right figure?	24
11. (i) Do you agree that the £10,000 minimum threshold for external examination of accounts should be raised? If you do, is £25,000 the right figure? (ii) What are your views on the minimum threshold being raised to £50,000?	25
12. Charities with income over £500,000 must have their accounts audited. Do you think this £500,000 threshold should be raised? If you do, is £1 million the right figure?	26
13. Charities with income greater than £100,000 but not exceeding £500,000 must have their accounts audited if their assets are worth more than £2.8 million (before deduction of liabilities). (i) Do you think the lower income trigger should be raised to £250,000 in line with the proposed increase in the threshold for preparing accruals accounts? (ii) Do you agree that the asset element should be increased to £3.26 million to remain in line with the threshold for companies that are not charities?	26
14. If a charity with income between £250,000 and £500,000 opts for an Independent Examination, it must appoint a Qualified Examiner. If the £500,000 income-based audit threshold is raised, should this lower £250,000 threshold also be raised? If so, what would be the right figure?	26

Question	Page
15. Registered charities with income over £10,000 must state that they are registered on certain documents. Do you agree that this £10,000 threshold should be increased? If you do, is £25,000 the right figure?	27
16. There is a £500 threshold relating to recovery of the cost of proving a charity's title to a rentcharge. Do you think that this should be increased? If so, is £1,000 the right figure?	27
17. A person may be a professional fund-raiser if his or her relevant income exceeds £5 a day or £500 a year. Do you agree that these figures should be increased? If you do, are £10 a day and £1,000 a year the right figures?	28
18. There is a qualified right to a refund in connection with broadcast appeals that applies only to donations of £50 or more. Do you agree that this minimum amount should be changed? If you do, is £100 the right figure?	28
19. Most charities with income over £5,000 are required to register with the Commission. Do you agree that this general registration threshold should remain at £5,000? If you do not, what should it be?	29
20. All registered charities with income over £10,000 are required to make an Annual Return to the Commission. Do you agree that this threshold should remain at £10,000? If you do not, what should it be?	31
21. Do you agree that the benefits of the current Annual Return, based on the annual accounts and reports cycle, outweigh the benefits of taking a different, perhaps biennial, approach to reporting? If you do not, what approach would you suggest for the Annual Return and/or the preparation of accounts and reports by charities?	31
22. The 2006 Act changed the ability of charities to spend capital, transfer property and modify their powers. Do you agree that no further changes should be made to the thresholds in these areas until their effect has been assessed as part of the five year review? If you do not, what changes would you make?	32
23. Do you think that any other thresholds covered by this consultation should be changed? If you do please let us have details.	32

2. Background

2.1 The Charities Act 2006 (the 2006 Act) was a significant development for the charitable sector. One of its aims was to modernise the regulatory framework in which charities operate and enable them to work more effectively.

2.2 The search for better ways to regulate charities did not stop with the 2006 Act, however and, during the legislation's passage through Parliament, the Government made a commitment to review all regulatory and reporting thresholds in the various Charities Acts.

2.3 During the passage of the Charities Bill, the Minister (Lord Bassam of Brighton) made a commitment in the House of Lords to there being a review of all thresholds in the Charities Acts a year after Royal Assent of the Charities Act 2006, and to publish proposals for public consultation. This was in response to the Opposition spokesman on the Charities Bill (Lord Hodgson of Astley Abbotts) who argued for simplification and increases of various thresholds in the Charities Acts. While sympathetic with some of the deregulatory ambitions, we wanted to ensure that there was proper consultation on any proposals.

2.4 This review of thresholds is being conducted jointly by the Office of the Third Sector and the Charity Commission, and fulfils this government commitment. Its overall aim is to improve the regulation of charities and this paper makes a number of specific recommendations for change.

2.5 The 2006 Act also requires there to be a review of its operation within five years of the Act being passed. This has an impact on this review in two ways. First, the provisions for the review take one threshold out of the scope of this review (see paragraph 7.1.2 for more details). Second, and more generally, we believe that more time should be taken to assess the impact of some of the changes made by the 2006 Act before further changes are proposed. Where this is the case we have recommended that no change should be made until after the five year review.

Who are we?

2.6 The Charity Commission for England and Wales (the Commission) is the regulator and registrar of charities in England and Wales. Its aim is to provide the best possible regulation of those charities in order to increase their efficiency and effectiveness and public trust and confidence in charities.

2.7 The Office of the Third Sector (OTS) is part of the Cabinet Office and deals with charity law and regulation affecting charities in England and Wales. It aims to make sure that the legal framework helps charities to develop their activities and services and to play an increasing role for good in society, while giving confidence to the public about the integrity of charities.

Charity regulation

2.8 Charities are subject to a wide range of regulation that is not specifically aimed at them. Health and safety measures and employment law are examples. These regulations are outside the scope of this review.⁶

⁶ If you have any suggestions for improving regulation in these areas they can be submitted to the Better Regulation Executive via www.betterregulation.gov.uk/

2.9 There is also charity-specific regulation, much of which includes the application of financial thresholds for different types of charities. These thresholds are the focus of this review and they have an impact on a range of issues including:

- Compulsory registration with the Charity Commission
- The type of accounts charities prepare
- Whether charities' accounts must be externally examined and the type of examination to be used
- The sending of accounts and annual reports to the Commission
- The making and content of an Annual Return to the Commission
- The ability of charities to spend capital and transfer property to another charity.

2.10 We welcome not only views on our recommendations but also comments and suggestions on any other area relating to regulatory and reporting thresholds in charity law.

2.11 The Better Regulation Task Force produced a report *Better Regulation for Civil Society* in 2005 which suggested that Charity Commission regulation was not a significant issue for many charities but noted there was evidence that it was the smallest charities that found regulation most burdensome. We are therefore particularly keen to find ways of making things easier for small charities and their trustees.

2.12 It should be noted that this paper refers only to the requirements of the Charities Acts and related regulations. These are the minimum requirements for charities but they can be overridden by more onerous provisions in an individual charity's governing document. For example, a charity's governing document may require a charity to have its accounts audited even if its income is below the audit threshold.

2.13 Increases in thresholds might remove the requirement to routinely provide information to the Commission from thousands of – usually small – charities. This would not leave the Commission unable to obtain this information. It has a range of regulatory and protective powers that can be used to obtain information as the need arises in its casework.

3. Overall approach

3.1 It is important that we hear what charities think about the issues raised by this paper. But we also need to hear other views if we are to strike the right balance between the interests of charities and those of other stakeholders including the general public. So we would encourage everyone with an interest in charities to respond to this consultation.

Improving regulation

3.2 Like the 2006 Act this review coincides with a drive across government to reduce administrative burdens and one of the aims of the review is to look for ways to make things easier for charities and their trustees. Because of the way in which regulation impacts upon them and in the light of the report *Better Regulation for Civil Society* mentioned in paragraph 2.11 above, we are particularly keen to remove any unnecessary burden from smaller charities and their trustees.

3.3 But we recognise that the review cannot be driven purely by burden reduction. Much of the charity framework is designed to ensure that the sector is transparent and accountable to all its stakeholders including the general public. Finding the right balance between making things easier for charities and retaining appropriate regulation is essential to the maintenance of public trust and confidence in charities.

3.4 The aim of the review is therefore to find the minimum amount of regulatory burden that is consistent with effective regulation of charities.

3.5 None of the proposals changes the fundamental principles of charity law that charities must comply with. But they would, generally speaking, reduce some of the detailed requirements, particularly for smaller charities.

3.6 We have reviewed all the thresholds in the Charities Acts using the following criteria as guidelines:

1. There is a logical case to be made for the change
2. It would reduce the administrative burden on charities and their trustees
3. It would simplify/rationalise the regulatory framework
4. It is consistent with maintaining an effective regulatory framework
5. It provides for transparent and accountable reporting

3.7. These criteria reflect our aspiration to ease the burden on charities and trustees, while maintaining an effective regulatory framework. But the overriding aim is to improve regulation rather than simply reduce or remove it regardless of the consequences. We recognise therefore that there may be ways of doing so that do not meet all of the criteria.

3.8. We will therefore apply the criteria in a flexible and pragmatic way. Clearly we could not accept proposals that did not meet the fourth criterion, but we would not reject a proposal for change simply because it did not meet the second or third.

Question 1

Do you agree that the criteria in paragraph 3.6 are sensible guidelines for this review and that they should be applied in a sensible and pragmatic way as outlined in paragraph 3.8?

All comments welcome

3.9 We do not want to limit comments and suggestions in any way. If you think any other changes will improve charity regulation please let us have your ideas, including a full explanation of why you think the change would be beneficial.

3.10 All of the recommendations in this paper are intended to be risk based and proportionate and maintain the right balance between reducing the burden on trustees and the effective regulation of charities. All stakeholders are invited to comment on whether we have got the balance right, not only in specific recommendations but also in the overall package of changes we have proposed.

3.11 We realise that there may well be a range of different views on how best to strike this balance but hope that most will fit broadly within the approach we have taken. But we cannot be sure and so would welcome comments on whether we have gone too far or have not gone far enough.

Question 2

Do you think that the overall package of recommendations in this paper strikes the right balance between reducing the burden on charities and the effective regulation of charities?

Question 3

Do you think our overall approach goes too far? If you do, would you say that the current thresholds should be retained or do you believe there is a case for reducing them? If the latter, what thresholds would you suggest?

3.12 If we focused purely on reducing the burden on charities and their trustees more radical changes could have a significant impact. Some examples that illustrate this are:

- Trustees Annual Report. We recommend the introduction of a £25,000 preparation threshold. A more radical approach would be to introduce a preparation threshold of £100,000 or £250,000. This would produce additional annual savings of £855,000 and £3.03 million respectively
- External scrutiny/Independent Examination. We recommend that this should be raised from £10,000 to £25,000. An increase to £100,000 would make additional annual savings of £1.1 million.

3.13 Clearly such a radical approach could be extended to other areas including audit and accounts preparation. We firmly believe that changes on these lines would go too far, however. They would exclude charities with significant income and, potentially, even more significant assets from a number of key areas of the regulatory framework and greatly increase the risks to charity assets and to public trust and confidence in charities.

Question 4

Do you think that far more radical changes are justified? If you do, what major changes would you propose? Do you think there are any general limits? For example, should routine reporting focus exclusively on large charities? If so, what thresholds would you suggest?

Question 5

Do the proposals have an adverse impact on any group in society? Do they have an adverse impact on a particular group of charities, or their beneficiaries?

4. The Charities Acts and the case for change

4.1 There is no easily accessible single piece of legislation containing all of the thresholds covered by this review. Generally speaking they appear in the Charities Act 1993 (the 1993 Act) but many have changed since it was first implemented. In particular, the Charities Act 2006 (the 2006 Act) made a range of amendments to the 1993 Act rather than replacing it. The fund-raising thresholds mentioned in paragraphs 6.7–6.11 are taken from the Charities Act 1992 (the 1992 Act).

4.2 We recognise that this is potentially confusing and it is intended to bring most of the above together in a new Charities Act in the future (the provisions relating to fund-raising and public charitable collections may remain in the 1992 and 2006 Acts respectively). For ease of reading the main part of this paper does not refer to the specific sections of the Charities Acts but detailed references are included in Annex 1.

The case for change

4.3 The 2006 Act raised a number of regulatory and reporting thresholds for charities. The framework was also simplified. For example, several thresholds that applied to both income and expenditure were changed to refer only to income.

4.4 But the income figures for a number of thresholds have not been changed, even to account for inflation, since their introduction in the mid-1990s during the staged implementation

of the 1993 Charities Act. Inflation alone would argue for increasing, for example, a £10,000 threshold to around £14,500.⁷

4.5 The review also reflects developments in best practice in regulation that have happened since these thresholds were introduced. In particular, it reflects a greater focus on risk and proportionality than was taken at that time. While this does not mean that small charities should be exempt from all regulation, the review proposes a lighter touch approach to routine regulatory and reporting requirements for small charities. We believe that the application of a proportionate and risk-based approach is a strong argument for change and, together with the need to take account of inflation, forms the basis for our recommendations that a number of thresholds that apply to charities with income above £10,000⁸ could be raised to £25,000, without a loss of regulatory confidence.

4.6 We have considered each threshold on its own merits. However, to ensure a degree of consistency, we have also taken account of the relationship between the different thresholds, including an assessment of the benefits of reducing the range of thresholds. For example, as mentioned above, a number of the proposals would increase thresholds from £10,000 to £25,000.

⁷ Based on the Retail Prices Index (all items included).

⁸ Unless we say otherwise the thresholds covered by this paper relate to annual income. For ease of reference this paper often refers just to the income level. For example, “charities over £x,000” means “charities with a gross annual income of over £x,000”.

The case for making changes now

4.7 A number of changes are being made to charity regulation including the staged implementation of the Charities Act 2006. Some may feel that it is difficult enough to keep track of these developments without proposing even more changes especially as some thresholds need time to settle in and allow for a full assessment of their impact.

4.8 We accept that there is a risk of causing some confusion. But we also know from the feedback we receive from charities that the recommendations in this paper have the potential to make things easier for charities and their trustees. We are also interested in hearing other ideas and suggestions for improving the various threshold requirements.

4.9 On balance, therefore, we believe that such changes should be made as soon as possible and that the risk of confusion or consultation fatigue is outweighed by the benefits that changes could bring to thousands of charities and their trustees.

4.10 To reduce the potential for confusion, and to help trustees and other stakeholders adjust to changes, we will publicise the timetable for introducing any new thresholds that emerge from the review and prepare guidance for trustees.

5. Main recommendations on individual thresholds

5.1 Preparing accounts and sending them to the Charity Commission and on request to the public

5.1.1 All charities must prepare annual accounts and must provide copies of their latest accounts on request. All registered charities with an income above £10,000 must also send their accounts to the Commission every year. This threshold has not changed since its introduction in 1996.

5.1.2 We believe it would be wrong to change the general requirements that all charities must prepare accounts and provide copies to the public on request, as this plays a key role in ensuring that charities, particularly small charities, are transparent and accountable.

5.1.3 But a combination of inflation since the 1993 Act and the increased focus on risk and proportionality now argues strongly for a higher threshold for routinely sending accounts to the Commission. We believe that the threshold should now be set at £25,000.

5.1.4 This proposal would make life simpler for small charities although it would generate only modest administrative savings, because these charities will still be required to prepare accounts.

5.1.5 It would also free Commission resources to focus on areas of greater risk. The Commission would still, however, have the power to obtain accounts from charities below £25,000 should specific concerns arise.

5.1.6 It is important to note that while this change would reduce the number of charities that had routinely to submit their accounts to the Commission by around 30% (23,000), the Commission would still receive accounts covering 98% of the income of registered charities.

More details of the effect of this proposal are contained in the Impact Assessment in Annex 2.

Question 6

Do you agree that there should be no change to the requirement for all charities to prepare accounts and make them available to the public on request?

Question 7

Registered charities with income over £10,000 must send their annual accounts to the Commission. Do you agree that this £10,000 threshold should be raised? If you do, is £25,000 the right figure?

5.2 The Trustees Annual Report

5.2.1 The Trustees Annual Report (TAR) is a separate document to the accounts. All registered charities have to prepare a TAR and those over £10,000 are required to send it to the Commission.

5.2.2 For small charities the TAR contains factual information about the charity and a brief summary of its activities and achievements during the year. Charities over the audit threshold have to prepare a more detailed report.

5.2.3 The £10,000 submission threshold has not changed since its introduction in 1996.

5.2.4 Charities are also required to provide a copy of their TAR on request. Until the 2006 Act this was not a legal requirement but we believe that, since 1996, most charities have in practice been providing copies of their TAR when asked for their accounts.

5.2.5 In carrying out our thresholds review we have considered:

- (i) which charities should have to send a copy of the TAR to the Commission, and
- (ii) whether it is necessary to insist that the smallest registered charities prepare these reports.

(i) Sending a TAR to the Commission

5.2.6 We believe that it is logical that a charity's accounts and TAR should be sent to the Commission together. As we are recommending that charities should now submit their accounts to the Commission only if their income exceeds £25,000, we propose that this submission threshold should also apply to the TAR.

5.2.7 This change would benefit the same number of charities as the increase in the accounts submission threshold proposed in paragraph 5.1.3 above. It would save 23,000 registered charities the expense of sending their TAR to the Commission. Again as above, the Commission would still receive TARs covering 98% of the income of registered charities, because charities with incomes above £25,000 hold the vast majority of the sector's charitable assets. More details of the effect of this proposal are shown in the Impact Assessment in Annex 2.

Question 8

Registered charities with income over £10,000 must send their TAR to the Commission. Do you agree that this £10,000 threshold should be the same as the threshold for sending accounts to the Commission? If you do, is £25,000 the right figure?

(ii) Requirement to prepare a Trustees Annual Report (TAR)

5.2.8 The Commission's 2006 *Simplification Plan*⁹ used the introduction of a £10,000 preparation threshold for the TAR as an illustration of the type of change that could emerge from this review.

5.2.9 While publication of the 2006 *Simplification Plan* was not accompanied by formal consultation on the plan's contents, its overall set of proposals was favourably received and the Commission did not receive any comments criticising the idea of introducing a TAR preparation threshold.

5.2.10 We believe that a TAR preparation threshold should be introduced.

5.2.11 Generally speaking a charity does not have to register with the Charity Commission if its income is £5,000 or less. We therefore considered whether the TAR preparation threshold should also be £5,000 on the basis that a registered charity with income below £5,000 could avoid having to prepare a TAR by asking to be removed from the register. That would remove the need to prepare a TAR from around 70,000 currently registered charities.

5.2.12 There is clear logic behind a £5,000 threshold but we do not think that it goes far enough. We are also looking to apply a regulatory approach that is proportionate and risk based. We believe that this argues for a higher threshold than £5,000. The *Simplification Plan* mentioned £10,000 but in the light of the full review and our recommendations above we recommend that the TAR preparation threshold should also be £25,000.

5.2.13 In proposing this threshold we are seeking to balance the local accountability of small charities with minimising the regulatory burden on these charities.

5.2.14 The main burden of TAR preparation is in the annual report of activities – the factual information element is straightforward and will generally change little from year to year. The regulations setting out the nature of this report for charities of this size simply say it must be "a brief summary of the main activities of the charity during the year in relation to its objects". Because of this wording we believe there is

⁹ This can be viewed via www.charitycommission.gov.uk/spr/default.asp

little scope to reduce the burden within the regulations. For example, amending the wording to refer to “very brief” would not make any practical difference. We have also considered whether the regulations might require a smaller charity to make only a basic statement, perhaps simply confirming that all activities furthered its objects (with an option for an explanation if this was not the case). We are concerned, however, that such a basic statement would not be within the spirit of the legislation which seems to us to envisage a more detailed description of what a charity has done during the year. Therefore, if we are significantly to ease the burden of the sector in this area, we believe we must look beyond the regulations by introducing a preparation threshold.

5.2.15 On the other hand, we appreciate that many stakeholders value the narrative summary contained in a charity’s TAR. We also acknowledge that there may be a small number of cases in which trustees of registered charities may refuse to provide more than the accounts to interested stakeholders.

5.2.16 The TAR also plays a key role in the Commission’s proposals for public benefit returns by small charities. The introduction of a TAR preparation threshold would mean that small registered charities would not have routinely to prepare such returns.

5.2.17 There is a risk that a combination of these factors could pose a threat to public trust and confidence in charities. However, this risk needs to be weighed against the reduced regulatory burden on small charities and their trustees.

5.2.18 In addition, there is the safeguard of the Commission’s powers to take action where appropriate, powers which apply irrespective of the threshold level. For example, the Commission already has the power to require an unregistered excepted charity to prepare a TAR. If a preparation threshold is introduced we will

explore how best to extend this power so that it also applies to registered charities that are not required routinely to prepare a TAR.

5.2.19 We believe that, in practice, the vast majority of charities will continue to provide supporters with this type of information where there is a demand for it.

5.2.20 Overall, therefore, we have concluded that a preparation threshold of £25,000 would be the best balance between accountability and proportionality, with the benefits to smaller charities and the reduction in regulatory burden outweighing the risks and potential loss of information.

5.2.21 There is no power in the Charities Acts to introduce a preparation threshold. But, subject to the results of this consultation, we will explore how best to make such a change. This is likely to involve a longer process than using the powers in the Charities Acts and so, if this proposal is taken forward, it is likely to be implemented later than other changes to emerge from the review.

5.2.22 If implemented, this proposal would mean that some 118,000 charities would no longer be required to prepare a TAR. As noted above 70,000 of them could currently avoid this requirement by asking to be removed from the register. The Commission would still receive TARs for charities above the threshold, which represent 98% of registered charities’ total income. More details of the effect are in the Impact Assessment in Annex 2.

Question 9

All registered charities must prepare a TAR. Do you agree that a TAR preparation threshold should be introduced to ease the burden on small charities? If you do, is £25,000 the right figure, or should the level be the same as the registration threshold (£5,000) or another figure such as £10,000?

5.3 Preparation of accruals accounts

5.3.1 Non-company charities over £100,000 must prepare accruals accounts. Smaller non-company charities can choose to prepare receipts and payments accounts and a statement of assets and liabilities, offering more flexibility in layout and content. Their relative simplicity allows them to be prepared by non accountants.

5.3.2 Accruals accounts must follow the Charities SORP.¹⁰ The SORP is a “one-stop” solution written specifically for the charitable sector. While the SORP includes some concessions to simplify the reporting requirements for smaller charities, the feedback we have received indicates that the complexity of this framework can prove very burdensome to smaller charities.

5.3.3 The £100,000 threshold has not changed since its introduction in 1996. As elsewhere, applying inflation and taking a proportionate and risk-based approach would support an increase in this threshold. We therefore recommend that the threshold should be raised to £250,000.

5.3.4 This increase would also be consistent with the general increases in accounting thresholds both in the 2006 Act and as recommended in this paper. On the assumption that such charities would opt for Independent Examination it would also align the need to prepare accruals accounts with the requirement to use a Qualified Examiner who would be better able to advise the trustees about the SORP.

5.3.5 The preparation of accruals accounts would remain an option for charities whose income exceeds £100,000 but is no more than £250,000, but they would be able to choose the simpler and less expensive option of preparing receipts and payments accounts.

5.3.6 This would affect around 11,700 charities and more details of the effect of this change are in the Impact Assessment in Annex 2.

Question 10

Charities with income over £100,000 must prepare accruals accounts. Do you agree that this £100,000 threshold should be increased? If you do, is £250,000 the right figure?

5.4 External scrutiny of small charities' accounts

5.4.1 Non-company charities whose income is over £10,000 but no more than £100,000 are required to have their accounts externally examined. They can choose an Independent Examination rather than audit.

5.4.2 This also applies to non-company charities with income over £100,000 but no more than £500,000 unless their assets are worth more than £2.8 million (before deduction of liabilities).

5.4.3 Changes are planned to the regulation of small company charities to align the external scrutiny requirements with that of non-company charities. Small company charities will then also be subject to the above.

5.4.4 While some accounts preparation and examination thresholds were changed by the 2006 Act, the £10,000 threshold for external scrutiny has not changed since 1996 when the relevant provisions of the 1993 Act were implemented.

5.4.5 We have feedback from charities suggesting that it can be difficult to recruit volunteers to carry out an Independent Examination. This can mean that an Examiner must be paid for and this may represent a disproportionate cost for smaller charities.

¹⁰ *Accounting and reporting by charities: Statement of Recommended Practice*. This and other related documents can be read via www.charitycommission.gov.uk/investigations/sorp/sorpfront.asp

5.4.6 Again, the effects of inflation and the increased focus on proportionality and risk argue for a significant increase. An increase in this threshold also, arguably, follows naturally from the 2006 Act's increase in the audit threshold from £250,000 to £500,000.

5.4.7 The Commission's 2006 *Simplification Plan* mentioned an increase of this £10,000 threshold to £25,000 as an illustration of the type of change that could emerge from the review. We recommend this increase.

5.4.8 We also considered increasing the threshold to £50,000 but, on balance, we are concerned that the risks of unscrutinised accounts for charities between £25,000 and £50,000 outweigh the regulatory benefits. We would welcome comments on these risks, however, and on the merits of a £50,000 external scrutiny threshold.

5.4.9 An increase to £25,000 would cover around 37,000 charities (this is higher than the figure for the same increase in the threshold for accounts submission, for example, because it also applies to unregistered excepted charities).

5.4.10 An increase to £50,000 would cover an additional 23,500 charities, and around 60,500 charities in total.

5.4.11 More details of the effect of these changes are in the Impact Assessment in Annex 2.

Question 11

(i) Do you agree that the £10,000 minimum threshold for external examination of accounts should be raised? If you do, is £25,000 the right figure?

(ii) What are your views on the minimum threshold being raised to £50,000?

5.5 Audit

(i) Income threshold

5.5.1 The 2006 Act raised the £250,000 audit threshold for charities to £500,000. (It also applied an asset threshold in some circumstances. This is discussed below.) Although these changes were only introduced by the 2006 Act, we have considered whether there is a case for a further increase to £1 million.

5.5.2 Such an increase would reduce the burden on larger charities, as some 5,400 charities would be able to opt for an Independent Examination rather than audit.

5.5.3 They would also be able to prepare a simpler form of the TAR and have greater freedom in accounts preparation.

5.5.4 It would also mean that the audit threshold was the same as the requirement for charities to prepare a Summary Information Return as part of their Annual Return.

5.5.5 We are also aware of concerns that revised international audit standards could increase the complexity of the audit process in a way that might have disproportionate impact on smaller auditable charities. Raising the threshold again would protect these charities from this extra impact.

5.5.6 However, a further increase in this threshold would also reduce the level of assurance derived from the audit of the accounts for these charities. A review of the 2006 Act is to take place five years after its enactment to assess its impact. There is an argument for deferring consideration of this threshold to that review as that would allow time for the £500,000 threshold to settle in and for its effect to be properly analysed.

5.5.7 We think that the arguments are finely balanced and would welcome your comments so that further consideration can be informed by stakeholders' views.

5.5.8 More details of the effect of raising the audit threshold are in the Impact Assessment in Annex 2.

Question 12

Charities with income over £500,000 must have their accounts audited. Do you think this £500,000 threshold should be raised? If you do, is £1 million the right figure?

(ii) Asset threshold

5.5.9 The 2006 Act introduced an asset threshold and charities with income between £100,000 and £500,000 must now have their accounts audited if their assets are worth more than £2.8 million (before deduction of liabilities).

5.5.10 A valuation of assets is an integral part of accruals accounts. We have recommended above that accruals accounts should only be compulsory for charities over £250,000. We would welcome your views on whether, if this change is implemented, the £100,000 lower figure for the application of the asset threshold should also be raised to £250,000.

5.5.11 The asset threshold figure of £2.8 million was chosen to match that for non-charitable companies. The Government now intends to increase the threshold for non-charitable companies to £3.26 million under a European Directive that permits Member States to raise the financial thresholds defining small and medium companies by 20%. To avoid a disproportionate impact on grant-making charities with large endowments it is proposed to increase the £2.8 million to £3.26 million to maintain harmony with the small company requirements.

Question 13

Charities with income greater than £100,000 but not exceeding £500,000 must have their accounts audited if their assets are worth more than £2.8 million (before deduction of liabilities).

(i) Do you think the lower income trigger should be raised to £250,000 in line with the proposed increase in the thresholds for preparing accruals accounts?

(ii) Do you agree that the asset element should be increased to £3.26 million to remain in line with the threshold for companies that are not charities?

5.6 Qualified Independent Examiner

5.6.1 The 2006 Act provides that charities with income greater than £250,000 but not exceeding £500,000 must use an examiner who is a member of one of eleven organisations if they opt for Independent Examination.

5.6.2 If our proposals are implemented the lower figure would be aligned with the need to prepare accruals accounts. A Qualified Examiner would be better able to advise the trustees about the more complex accounting issues arising from accruals accounts. We believe this is a strong argument for leaving the Qualified Examiner threshold unchanged even if the audit threshold is raised. It would then apply to charities between £250,000 and the revised audit threshold.

5.6.3 If, however, there is support for increasing the audit threshold to, say, £1 million there might be a case for also raising this so it applies to charities between, say, £500,000 and £1 million. What do you think?

Question 14

If a charity with income between £250,000 and £500,000 opts for an Independent Examination, it must appoint a Qualified Examiner. If the £500,000 income-based audit threshold is raised, should this lower £250,000 threshold also be raised? If so, what would be the right figure?

6. Other recommended changes

6.1 We have also considered all other thresholds and we recommend the following changes. Generally speaking the case for change is based on a combination of the following factors:

- thresholds have not changed since the 1992 and 1993 Acts
- the effect of inflation
- the application of a more proportionate and risk-based approach.

Need to include registered status on documents

6.2 A registered charity over £10,000 must state that it is registered on a range of documents. The 1993 Act originally introduced a £5,000 threshold but that was increased to £10,000 in 1995.

6.3 We recommend that this should be increased to £25,000 which would also be in line with other recommended increases from £10,000.

6.4 This would affect around 23,000 charities and more details of the effect of this change are in the Impact Assessment in Annex 2.

Question 15

Registered charities with income over £10,000 must state that they are registered on certain documents. Do you agree that this £10,000 threshold should be increased? If you do, is £25,000 the right figure?

Recovery of costs of proving title to rentcharge

6.5 Where a charity releases a rentcharge for a payment of no more than £500, the costs of proving title shall be recoverable from the person(s) in whose favour it is released. The overall approach of this consultation, including the arguments for change in paragraph 6.1, would suggest that this should be increased.

6.6 But the Rentcharges Act 1977 will, with a few exceptions, see the abolition of the rentcharge, in most cases by 2037. We wondered, therefore, whether change was necessary and would welcome comments on whether this should be increased to £1,000.

Question 16

There is a £500 threshold relating to recovery of the cost of proving a charity's title to a rentcharge. Do you think that this should be increased? If so, is £1,000 the right figure?

Fund-raising (1992 Act)

(i) Definition of professional fund-raiser

6.7 The 1992 Act contains a number of provisions to regulate fund-raising and includes a definition of "professional fund-raiser". Among other things this refers to the amount received in remuneration. The definition applies only to those who receive more than either £5 a day or £500 a year in remuneration in connection with relevant fund-raising activities. These figures have not changed since their introduction by the 1992 Act.

6.8 We believe the general argument for change mentioned in paragraph 6.1 applies here and recommend that the figures are doubled to £10 per day or £1,000 a year.

6.9 We do not know how many would fall outside a revised definition but do not believe that this would have a significant impact. We have not prepared an Impact Assessment for this proposal.

Question 17

A person may be a professional fund-raiser if his or her relevant income exceeds £5 a day or £500 a year. Do you agree that these figures should be increased? If you do, are £10 a day and £1,000 a year the right figures?

(ii) Limited right to refund

6.10 In some circumstances there is a right to a refund in connection with broadcast appeals. It applies to donations of £50 or more. We understand from the Institute of Fundraising that this is rarely used and that disputes are unknown. We have not prepared an Impact Assessment for this proposal.

6.11 As above an increase would be consistent with the general case for change in paragraph 6.1 and we recommend that this should be doubled to £100.

Question 18

There is a qualified right to a refund in connection with broadcast appeals that applies to donations of £50 or more. Do you agree that this minimum amount should be changed? If you do, is £100 the right figure?

7. Other issues considered

7.1 Registration thresholds

7.1.1 The general registration threshold of £5,000 introduced by the 2006 Act is included in this review of thresholds.

7.1.2 The 2006 Act also provides for an interim registration threshold of £100,000 for currently excepted charities and some exempt charities. The relevant provisions are not expected to be implemented before 2008. This threshold cannot be changed before the five year review and so was considered to be outside the scope of this review.

7.1.3 The new simple income threshold requires most charities to register if their income is over £5,000. This is a significant change that was much discussed during the passage of the 2006 Act. It replaced a requirement to register if a charity met any of three criteria:

- It had annual income over £1,000
- It had permanent endowment, or
- It had use or occupation of land.

7.1.4 An argument in favour of an increase in the new registration threshold is that it would offer the potential to align the registration and the Annual Return thresholds. In theory this could mean that all charities on the register would be subject to our active monitoring regime. However, as long as voluntary registration is possible – and it will soon become a right – it is likely that there will always be thousands of charities on the register that are below any reporting threshold.

7.1.5 The creation of the Charitable Incorporated Organisation constitutional form for charities, without a registration threshold, will introduce the possibility of registered charities that are both compulsory registrations and below any financial thresholds.

7.1.6 For these reasons, we recommend that the registration threshold remain at the level introduced by the 2006 Act, with its impact properly analysed as part of the five year review of the Charities Act.

Question 19

Most charities with income over £5,000 are required to register with the Commission. Do you agree that the general registration threshold should remain at £5,000? If you do not, what should it be?

7.2 Annual Return

7.2.1 At the moment the 1993 Act requires all registered charities over £10,000 to make an Annual Return. This was unchanged by the 2006 Act. The Commission also asks smaller charities to make a simple Annual Return as a convenient way of keeping the register up to date.

7.2.2 For charities over £1 million the Annual Return also includes a Summary Information Return. The Summary Information Return is not covered by this section as it has been reviewed separately (see paragraph 7.3.1)

7.2.3 The Commission's 2006 *Simplification Plan* mentioned raising the threshold for being required to complete the Annual Return to £25,000 as an illustration of the type of change that might emerge from the review.

7.2.4 We have given further thought to the impact this might have in practice and do not propose to recommend any change. We have taken this view because of the risk that taking a further 23,000 charities out of the Commission's routine reporting regime would weaken its position as regulator and the lack of real impact it would have on charities.

7.2.5 The Commission is introducing a system for identifying apparently inactive charities and removing them from the register. It plans to do this by the end of 2007. This should lead to a more accurate, up-to-date register and increase stakeholders' ability to rely on the information the register holds.

7.2.6 There is a risk that increasing this threshold could reduce the impact of the new procedure. Generally speaking, of course, such a risk could be outweighed if a change would produce significant savings for charities. We have therefore considered whether a change would significantly reduce the costs of complying with legal requirements but we believe it would have little real impact in practice.¹¹

7.2.7 This is because all registered charities are required to tell the Commission when there is a change to their entry in the register of charities. For charities of this size the Annual Return is essentially a vehicle for confirming register details. Whether it is below the compulsory

threshold or not the Commission will continue to ask each registered charity to do this as part of its efforts to maintain an accurate, up-to-date register that can be relied upon by all stakeholders.

7.2.8 It is possible that some small charities may make an Annual Return in the mistaken belief that they are required to do so. For those in that position who report changes to their register entry it will be information they are required to tell the Commission, even if they are not required to use the Annual Return, and will save them having to do so by other means.

7.2.9 For others it will involve only confirming that nothing has changed. While this is something registered charities are not legally required to do we believe that, in practice, it is very little work for individual charities and will improve the reliability of the register for everyone with an interest in charities.

7.2.10 This does not mean that the Annual Return requirements for small charities are set in stone. The contents of the Annual Return are set out in regulations made by the Commission and it has made changes to recent Annual Return forms that have significantly reduced the burden on small charities. The content of the latest form, AR07, was subject to public consultation earlier this year.¹² Changes over the last two Annual Return cycles have reduced the amount of information charities with incomes of between £10,000 and £500,000 are required to provide. More than 56,000 charities have benefited from these changes. The Commission will continue to regularly review the contents of the Annual Return.

¹¹ In its 2007 *Simplification Plan* the Charity Commission claims significant savings in Annual Return preparation on the basis of the original measurements from the Administrative Burdens Reduction project. The Commission expects these figures to change significantly as it gathers more evidence of these costs. This review assumes that this will happen. We believe this allows us to give a more realistic assessment of the practical impact of change in this area.

¹² Further information on the consultation can be found via:
(i) the consultation document: www.charitycommission.gov.uk/enhancingcharities/consultar2007.asp
(ii) summary of responses: www.charitycommission.gov.uk/enhancingcharities/ar2007resp.asp

Question 20

All registered charities with income over £10,000 are required to make an Annual Return to the Commission. Do you agree that this threshold should remain at £10,000? If you do not, what should it be?

7.3 Summary Information Return

7.3.1 Charities with income over £1 million have to prepare a Summary Information Return as part of their Annual Return. This threshold is part of the Annual Return regulations made by the Charity Commission. The Summary Information Return has recently been independently reviewed.¹³

7.3.2 The Commission will be implementing the technical and presentational changes that the independent reviewers have proposed. After the Commission has made those improvements we will consult on the future of the Summary Information Return. This consultation is likely to take place in 2008.

7.4 Annual reporting cycles

7.4.1 There is potential to reduce the regulatory burden on charities, if some of them were no longer required to report to the Commission on an annual basis. For example, smaller charities could perhaps be asked to only make a return to the Commission every two years (50% of relevant charities each year) or perhaps prepare accounts covering two years.

7.4.2 We did not pursue this idea, because we believe there are potential risks through not keeping up-to-date contact, including lower standards of transparency and potential loss of

accuracy to the register. Making such a change to the return might also make little impact in practice, as smaller charities are already asked to do no more than confirm their register details and it is likely that they would still be asked to do so annually regardless of changes in the formal reporting cycle.

7.4.3 Charities are required to prepare accounts for each financial year. To change the basis of accounts preparation to allow a longer period would require changes to charity and company law. In any event, it was not clear that having to prepare accounts every, say, two years would necessarily halve preparation costs for small charities as the accounts would inevitably be more complicated to prepare.

Question 21

Do you agree that the benefits of the current Annual Return, based on the annual accounts and reports cycle, outweigh the benefits of taking a different, perhaps biennial, approach to reporting? If you do not, what approach would you suggest for the Annual Return and/or the preparation of accounts and reports by charities?

7.5 Small charity thresholds

7.5.1 The 2006 Act made a number of changes extending the powers of charities to spend capital, transfer property and modify their powers. A number of the new provisions contain thresholds (see Annex 1 for more details). We believe these were potentially significant changes and time should be taken for them to settle in so that their impact can be properly assessed. We recommend that the current thresholds should be assessed as part of the five year review.

¹³ Further information on the review can be found at:

- (i) discussion paper for Commission Board including independent research report on Summary Information Return: www.charity-commission.gov.uk/Library/tcc/pdfs/paper07obm28.pdf
- (ii) minutes of Board meeting summarising discussion of paper and decision on the way forward: www.charity-commission.gov.uk/Library/tcc/pdfs/paper07obm33.pdf

Question 22

The 2006 Act changed the ability of charities to spend capital, transfer property and modify their powers. Do you agree that no further changes should be made to the thresholds in these areas until their effect has been assessed as part of the five year review? If you do not, what changes would you make?

7.7.2 The 2006 Act provided for the creation of a new form of charity, the Charitable Incorporated Organisation (CIO) that will register with the Commission and not Companies House. This will allow charities to be established in an incorporated form without having to comply with both company and charity law. For example, CIOs will, subject to the usual threshold, only have to submit accounts to the Commission.

7.6 Remaining thresholds

7.6.1 We have also thought about all of the other thresholds in the Charities Acts but concluded that no change was necessary. All thresholds are mentioned in Annex 1. A number of these are little known and infrequently used. But in the rare circumstances in which they apply they can be useful and we believe they should be retained.

Question 23

Do you think that any other thresholds covered by this consultation should be changed? If you do please let us have details.

7.7 Dual accounts submission

7.7.1 Around 20,000 registered charities that are also companies must send a copy of their accounts to both the Commission and Companies House. While this is not particularly expensive we know that charities see it as an unnecessary burden. The Commission is looking for ways to work with Companies House to identify options for the electronic exchange of accounts.

8. Next steps

8.1 We have allowed a full three-month consultation period ending 31 March 2008. In early 2008 the Charity Commission and the Office of the Third Sector will consider the responses received and use them to inform decisions on changes to charity law thresholds.

8.2 We aim to publish a summary of the responses to this consultation on both websites within three months of the closing date of the consultation. This will include a timetable for implementing changes that emerge from the consultation.

8.3 We hope to be able to implement some changes in 2008 although timing will depend on matters outside our control and so cannot be guaranteed. As explained above, the possible introduction of a preparation threshold for the Trustees Annual Report would be by a different process and so may take longer.

8.4 If we take forward any new ideas to emerge from the consultation we will aim to make the necessary changes quickly but the timetable will depend on the nature of the proposals.

9. How to respond

Please respond by 31 March 2008

We are happy to receive replies by post or by email. Please send responses to:

Mala Patel
PO Box 1227
Charity Commission Direct
Liverpool L69 3UG

Email: simplification@charitycommission.gsi.gov.uk

Please note that all responses will be copied to the Office of the Third Sector.

Where appropriate, we encourage you to provide evidence to support your response. If you are a representative group, it would be helpful if you could include a summary of the people and organisations that you represent.

Please note that we may publish responses.

If you would like to discuss the consultation please contact:

- David Bogie (Charity Commission)
At above address

Telephone: 020 7674 2396

Email:
David.Bogie@charitycommission.gsi.gov.uk

- Khaled Moyeed
Office of the Third Sector

2nd Floor
5 Great Smith Street
London SW1P 3BQ

Telephone: 020 7276 6028

Email:
Khaled.Moyeed@cabinet-office.x.gsi.gov.uk

Monitoring responses to this consultation

We are keen to take account of the opinion of everyone who can help us develop our policy and guidance. However, we know that we do not always hear from people from the black, Asian and ethnic minority communities who could make a contribution.

We want to make sure that everyone who wants to do so has the opportunity to contribute, but we need some help. To help us monitor the responses to this consultation, please complete and return the monitoring form.¹⁴

It is not compulsory to complete this form but, if you do respond, we will ensure that it is detached from your consultation response on receipt and keep the information confidential. Alternatively you can send this form separately to:

Sue Smith
PO Box 1227
Charity Commission Direct
Liverpool L69 3UG

¹⁴ If you are reading this online, the form can be downloaded at www.charitycommission.gov.uk/library/enhancingcharities/pdfs/cser1235.pdf

Consultees

A copy of this consultation document has been sent to a number of key sector umbrella bodies and other organisations and individuals who have an interest in our policy. If you think of other interested parties who should be consulted, please let us know.

Further information

If you have queries about any other aspect of the work of the Charity Commission or the Office of the Third Sector or would like to order any of our publications, please telephone:

- Charity Commission Direct: 0845 3000 218
- Office of the Third Sector: 020 7276 6400

Consultation document

This consultation has been designed to comply with the six consultation criteria in the Cabinet Office Code of Practice on Consultation:

- consult widely throughout the process, allowing a minimum of 12 weeks for written consultation at least once during the development of the policy
- be clear about what your proposals are, who may be affected, what questions are being asked and the timescale for responses
- ensure that your consultation is clear, concise and widely accessible
- give feedback regarding the responses received and how the consultation process influenced the policy
- monitor your department's effectiveness at consultation, including through the use of a designated consultation co-ordinator

- ensure your consultation follows better regulation best practice, including carrying out an impact assessment if appropriate.

Please comment on how far we have upheld the criteria and how we could further improve the consultation process. If you have comments or complaints about the consultation process, you should contact:

Sue Smith
PO Box 1227
Charity Commission Direct
Liverpool L69 3UG

Annexes

- 1. Financial thresholds after the 2006 Act and impact of possible changes**
- 2. Impact Assessment**

Annex 1

Financial thresholds after the 2006 Act and impact of possible changes

1. This table covers all financial thresholds in the 1992 and 1993 Charities Acts (the 1992 Act and the 1993 Act) including changes made by the Charities Act 2006 (the 2006 Act). For ease of reference, it assumes full implementation of the 2006 Act. Where a threshold was changed by the 2006 Act there is brief note of the previous position.

2. All cost figures are taken from or based on the original Administrative Burdens Reduction (ABR) project measurements. Savings reflect the Business as Usual adjustments made as part of ABR. For example, savings relating to most accounting thresholds are only 5% of total measured cost.

Issue	Threshold	Options for change and potential impact
1. Annual Return preparation and submission Section 48(1A) of 1993 Act as amended by Schedule 8(141(3)) of 2006 Act	£10,000 income 2006: Previously income or expenditure	Recommendation: No change
2. Submission of accounts Section 45(3) and (4) of 1993 Act as amended by Schedule 8(138(3) (a)) of 2006 Act	£10,000 income 2006: Previously income or expenditure	Recommendation: Increase to £25,000 There is no explicit threshold for this. It is tied to the Trustees Annual Report (TAR) submission threshold (if a charity has to submit a TAR it should send its accounts with it). The proposal would mean that some 23,000 charities would no longer have to submit their accounts. On the assumption that it would save a small amount of time plus costs of postage and so on we estimate it would save charities around £100,000 a year. There is potentially a greater impact on the Commission.

Issue	Threshold	Options for change and potential impact
<p>3. Trustees Annual Report: preparation and submission</p> <p>Submission: Section 45(3) and (4) of 1993 Act as amended by Schedule 8(138(3)(a)) of 2006 Act</p>	<p>All registered charities prepare. Those over £10,000 income have to submit</p> <p>2006: Previously income or expenditure</p>	<p>Recommendation: Introduce a preparation threshold of £25,000</p> <p>This would cover c118,000 charities, saving £4.1 million a year.</p>
<p>4. Registration: general</p> <p>Section 3A of 1993 Act as amended by Section 9 of 2006 Act</p>	<p>£5,000 income</p> <p>2006: Removed Permanent Endowment and land criteria, increased income from £1,000 to £5,000</p>	<p>Recommendation: No change. The £5,000 threshold was introduced by the 2006 Act and should be given time to settle.</p> <p>For information:</p> <ol style="list-style-type: none"> 1. An increase to £10,000 would cover c25,000 currently registered charities and reduce number of compulsory registrations by around 500 annually. 2. An increase to £25,000 would cover c48,000 currently registered charities and reduce compulsory registrations by around 1,000 annually.

Issue	Threshold	Options for change and potential impact
<p>5. External scrutiny of accounts (eligible for Independent Examination)</p> <p>Section 43(3) of the 1993 Act as amended by Section 28(4)(a) of the 2006 Act</p>	<p>£10,000 income</p> <p>2006: Previously income or expenditure</p>	<p>Recommendation: Increase to £25,000</p> <p>Comments invited: on increase to £50,000</p> <p>Inflation alone would argue for increase but only to around £15,000. Add increased focus on risk and a strong case can be made for a higher figure. It would also follow the increase in the audit threshold.</p> <p>(i) The recommended increase to £25,000 would cover c37,000 charities (more than for accounts submission above as this also applies to excepted charities). On the assumption that all currently use Independent Examination rather than audit this would save £1.2 million a year.</p> <p>(ii) An increase to £50,000 would cover a further 23,500 charities, saving an additional £750,000 for a total of £1.95 million.</p>
<p>6. Audit</p> <p>Section 43 of 1996 Act as amended by Section 28 of 2006 Act</p>	<p>(i) Income over £500,000</p> <p>(ii) Income over £100,000 but less than £500,000 and assets over £2.8 million (before deduction of liabilities)</p> <p>2006:</p> <p>(i) Was £250,000. Previously income or expenditure. "3 year rule" removed.</p> <p>(ii) New – previously no assets threshold</p>	<p>Comments invited:</p> <p>(i) on increasing income threshold from £500,000 to £1 million with proportionate changes to related assets threshold.</p> <p>(ii) whether the lower income trigger should be raised from £100,000 to £250,000 and whether asset element should be raised from £2.8 million to £3.26 million.</p> <p>NB: Existing thresholds for commercial companies are currently £5.6 million turnover or a balance sheet total of £2.8 million assets. The Government intends to raise these to £6.5 million and £3.26 million respectively.</p> <p>An increase to £1 million would cover c5,400 charities, saving £250,000 a year at current rates.</p> <p>It would also save around £800,000 in TAR costs for currently registered charities and reduce by £200,000 the expected costs for currently exempt and excepted charities that will have to register after implementation of the relevant parts of the Charities Act 2006.</p> <p>We do not believe that the changes mentioned at (ii) would have a significant impact overall.</p>

Issue	Threshold	Options for change and potential impact
7. Preparation of accruals accounts Section 42(3) of 1993 Act	£100,000	Recommendation: Increase to £250,000 This would cover c11,700 charities. If all prepared receipts and payments accounts they would save around £3.6 million a year.
8. Need for Qualified Independent Examiner Section 43(3A) as amended by Section 28 of the 2006 Act	If income above £250,000, Independent Examiner must be qualified Introduced by 2006 Act	Comments invited: if the audit threshold was raised to £1 million there may be a case for also raising this threshold, perhaps to £500,000. This would cover c4,500 charities. We are unable to estimate what savings would result but do not think they would be significant.
9. Registered status on published material Section 5(1) of 1993 Act	£10,000	Recommendation: Increase to £25,000 in line with other proposals This would cover c23,000 charities saving £191,000 annually.
10. Pay thresholds for “professional fund-raiser” Section 58(3)(a) and (b) of 1992 Act	Professional fund-raiser only if paid more than £5 a day or £500 a year	Recommendation: Increase to £10/£1,000
11. Minimum donation with right of refund Section 61(1), (2) and (3) of the 1992 Act	£50 or more	Recommendation: Increase to £100

Issue	Threshold	Options for change and potential impact
<p>12. Registration: Currently excepted and exempt</p> <p>Section 3A of 1993 Act as amended by 2006 Act</p>	<p>£100,000 income</p>	<p>Recommendation: No change</p> <p>The power to change the £100,000 figure is only exercisable after the report of the five year review under Section 73 is laid before Parliament.</p>
<p>13. (i) Small unincorporated charity power to transfer all property and modify powers</p> <p>(ii) Small unincorporated charity ability to modify powers</p> <p>(iii) Larger unincorporated charities power to spend capital given for particular purposes</p> <p>(iv) Power to spend capital subject to special trusts</p> <p>Sections 74 and 75 of 1993 Act as amended by Sections 40–42 of 2006 Act</p>	<p>(i) Income in last year over £10,000 (and no designated land)</p> <p>(ii) As above</p> <p>(iii) Last year income over £1,000 and value of fund over £10,000</p> <p>(iv) Value of fund over £10,000 (plus other criteria)</p>	<p>Recommendation: No change</p> <p>These four represent significant changes made by the 2006 Act.</p> <p>We believe that the new provisions should be given time to settle in before further changes are proposed. Inclusion in the five year review would allow their impact to be properly assessed.</p> <p>The overall impact of change in this area would be relatively small compared with changes to the high population areas such as accounts scrutiny, TAR, Annual Return and so on.</p>

Issue	Threshold	Options for change and potential impact
<p>14. Release of rentcharge: recovery of costs of proving title</p> <p>Section 40(2) of 1993 Act</p>	<p>If released for no more than £500 can recover costs from other party</p>	<p>Comments invited: The Rentcharges Act 1977 provides that, with a few exceptions, rentcharges will be abolished, most by 2037. The general approach of this consultation would argue for an increase to £1,000. Given the planned abolition, do you think this should be increased? If so, is £1,000 the right figure?</p>
<p>15. Exercise of Commission jurisdiction under Section 16(5)</p> <p>Section 16(5) of 1993 Act</p>	<p>£500, below which different conditions apply</p>	<p>Recommendation: No change</p> <p>Little impact in practice.</p>
<p>16. How much used under new purposes under Section 17(8) scheme</p> <p>Section 17(9) of 1993 Act</p>	<p>(i) £300 accrued before order</p> <p>(ii) £100 from any of three years after order</p>	<p>Recommendation: No change</p> <p>Little impact in practice.</p>

Annex 2

Impact Assessment

Summary: Intervention and Options

Charity Commission and Office of the Third Sector	Impact Assessment of options for change in consultation on charity law thresholds	
Stage: Consultation	Version: 1	Date: 6 December 2007

Contact for enquiries: David Bogie

Telephone: 020 7674 2396

What is the problem under consideration? Why is government intervention necessary?

The charity regulatory framework contains a range of financial thresholds. Many have not been changed since their introduction in the 1990s. During the passage of the Charities Act 2006, the Government made a commitment to review these thresholds to ensure that the regulatory framework continues to meet the modern standards of good regulation.

This consultation makes a number of recommendations for change arising from the review carried out by the Charity Commission and the Office of the Third Sector. Implementation of the changes would require secondary legislation.

What are the policy objectives and the intended effects?

To reduce the burden of regulation on charities and their trustees to the minimum that is consistent with the effective regulation of charities.

The proposals are designed to reduce the costs for charities while maintaining necessary levels of accountability and transparency.

What policy options have been considered? Please justify any preferred option.

The consultation considered changing a range of thresholds. This Impact Assessment contains details of all individual recommendations that would have a measurable impact on charities and two further options on which comments are invited.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

Effects will be monitored regularly and analysed as part of a wider review of the operation of the Charities Act 2006 due in 2011.

Executive Director sign-off for consultation stage Impact Assessments.

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.

A handwritten signature in black ink that reads "Rosie Chapman". The signature is written in a cursive, flowing style.

Rosie Chapman (Executive Director of Policy and Effectiveness, Charity Commission)

Date: 06/12/07

Summary: Analysis and Evidence

Policy option: 1

Increase in the threshold for the submission of accounts and Trustees' Annual Reports (TARs) to the Commission to £25,000

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups'	
	One-off (transition)	Yrs		
	£ N/A			
	Average annual cost (excluding one-off)			
	£ N/A			Total cost
Other key non-monetised costs by 'main affected groups'				
BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups'	
	One-off	Yrs		
	£			This change would remove submission requirement from c23,000 registered charities.
	Average annual benefit (excluding one-off)			
	£100,000			Total benefit
Other key non-monetised benefits by 'main affected groups'				
This change would release a small amount of trustee time to be applied to activities more directly in furtherance of charitable purposes.				
Key assumptions/sensitivities/risks				
That this will save no more than 15 minutes of staff time plus a small amount of postage, copying and so on.				

What is the geographic coverage of the policy/option?			England and Wales	
On what date will the policy be implemented?			Subject to consultation	
Which organisation(s) will enforce the policy?			Charity Commission	
What is the total annual cost of enforcement for these organisations?			N/A	
Does enforcement comply with Hampton principles?			Yes	
Will implementation go beyond minimum EU requirements?			N/A	
What is the value of the proposed offsetting measure per year?			N/A	
What is the value of changes in greenhouse gas emissions?			N/A	
Will the proposal have a significant impact on competition?			No	
Annual cost per organisation (excluding one-off)	£0–£10k N/A	£10k–£25k £4.50	Over £25k	
Are any of these organisations excluded?	N/A	No	N/A	N/A
Impact on administrative burdens baseline (2005 prices)			(Increase – Decrease)	
Increase	£	Decrease	£100,000	Net impact –£100,000

Summary: Analysis and Evidence

Policy option: 2

Introduction of the £25,000 threshold for the preparation of the Trustees' Annual Reports (TARs)

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups'
	One-off (transition)	Yrs	
	£ N/A		
	Average annual cost (excluding one-off)		
	£ N/A		
		Total cost	£
Other key non-monetised costs by 'main affected groups'			
Change might reduce the extent to which small charities are transparent and accountable to their stakeholders.			
BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups'
	One-off	Yrs	
	£		
	Average annual benefit (excluding one-off)		
	£4.1 million		
		Total benefit	£4.1 million
Other key non-monetised benefits by 'main affected groups'			
As the vast majority of this work is done by volunteers, it would release that time to be applied for activities more directly furthering charitable causes.			
Key assumptions/sensitivities/risks			
It is possible that many charities in the relevant income band will continue to prepare reports of this type in response to requests from members and so on. The costs of doing so are assumed to be Business as Usual costs in this context and so are excluded from the calculations.			

What is the geographic coverage of the policy/option?			England and Wales	
On what date will the policy be implemented?			Subject to consultation	
Which organisation(s) will enforce the policy?			Charity Commission	
What is the total annual cost of enforcement for these organisations?			N/A	
Does enforcement comply with Hampton principles?			Yes	
Will implementation go beyond minimum EU requirements?			N/A	
What is the value of the proposed offsetting measure per year?			N/A	
What is the value of changes in greenhouse gas emissions?			N/A	
Will the proposal have a significant impact on competition?			No	
Annual cost per organisation (excluding one-off)	£0–£10k £34.54	£10k–£25k £34.54	Over £25k	
Are any of these organisations excluded?	No	No	N/A	N/A
Impact on administrative burdens baseline (2005 prices)			(Increase – Decrease)	
Increase	£	Decrease	£4.1 million	Net impact –£4.1 million

Summary: Analysis and Evidence

Policy option: 3(i)

Increase in the threshold for the external scrutiny of accounts (Independent Examination) to £25,000

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups'
	One-off (transition)	Yrs	
	£ N/A		
	Average annual cost (excluding one-off)		
	£ N/A		
		Total cost	£
Other key non-monetised costs by 'main affected groups'			
Lack of external scrutiny for charities in relevant income band might increase risks to those charities and reduce their accountability.			
BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups'
	One-off	Yrs	
	£		
	Average annual benefit (excluding one-off)		
	£1.19 million		
		Total benefit	£1.19 million
Other key non-monetised benefits by 'main affected groups'			
This would release volunteer time to be applied to activities that more directly further charitable causes.			
Key assumptions/sensitivities/risks			
It is highly likely that some charities will continue to have some form of external scrutiny. The costs of doing so are assumed to be Business as Usual costs in this context and so are excluded from the calculations. The savings are based on each charity saving the cost of an Independent Examination (the current minimum requirement).			

What is the geographic coverage of the policy/option?		England and Wales		
On what date will the policy be implemented?		Subject to consultation		
Which organisation(s) will enforce the policy?		Charity Commission		
What is the total annual cost of enforcement for these organisations?		N/A		
Does enforcement comply with Hampton principles?		Yes		
Will implementation go beyond minimum EU requirements?		N/A		
What is the value of the proposed offsetting measure per year?		N/A		
What is the value of changes in greenhouse gas emissions?		N/A		
Will the proposal have a significant impact on competition?		No		
Annual cost per organisation (excluding one-off)	£0–£10k N/A	£10k–£25k £32.17	Over £25k	
Are any of these organisations excluded?	No	No	N/A	N/A
Impact on administrative burdens baseline (2005 prices)				(Increase – Decrease)
Increase	£	Decrease	£1.19 million	Net impact –£1.19 million

Summary: Analysis and Evidence

Policy option: 3(ii)

Comments invited on increasing above the threshold to £50,000

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups'
	One-off (transition)	Yrs	
	£ N/A		
	Average annual cost (excluding one-off)		
	£ N/A		
Other key non-monetised costs by 'main affected groups'			
Effect as for 3(i) but could affect more charities.			
BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups'
	One-off	Yrs	
	£		
	Average annual benefit (excluding one-off)		
	£1.95 million		
Other key non-monetised benefits by 'main affected groups'			
This would release volunteer time to be applied to activities that more directly further charitable causes.			
Key assumptions/sensitivities/risks			
As for 3(i) above.			

What is the geographic coverage of the policy/option?		England and Wales			
On what date will the policy be implemented?		Subject to consultation			
Which organisation(s) will enforce the policy?		Charity Commission			
What is the total annual cost of enforcement for these organisations?		N/A			
Does enforcement comply with Hampton principles?		Yes			
Will implementation go beyond minimum EU requirements?		N/A			
What is the value of the proposed offsetting measure per year?		N/A			
What is the value of changes in greenhouse gas emissions?		N/A			
Will the proposal have a significant impact on competition?		No			
Annual cost per organisation (excluding one-off)		£0–£10k N/A	£10k–£25k £32.17	£25k–£50k £32.17	Over £50k
Are any of these organisations excluded?		N/A	No	No	N/A
Impact on administrative burdens baseline (2005 prices)					(Increase – Decrease)
Increase	£	Decrease	£1.95 million	Net impact	–£1.95 million

Summary: Analysis and Evidence

Policy option: 4

Comments invited on increasing the audit threshold to £1 million (plus proportionate change to related asset threshold)

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups'
	One-off (transition)	Yrs	
	£ N/A		
	Average annual cost (excluding one-off)		
	£ N/A		
		Total cost	£
Other key non-monetised costs by 'main affected groups'			
Change could reduce transparency and accountability of charities in relevant income band due to reduction in levels of assurance derived from external scrutiny of accounts.			
BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups'
	One-off	Yrs	
	£		
	Average annual benefit (excluding one-off)		
	£850,000		
		Total benefit	£850,000
Other key non-monetised benefits by 'main affected groups'			

Key assumptions/sensitivities/risks

If this change was made it is likely that some charities would continue to have their accounts audited. The additional costs of doing so are assumed to be Business as Usual costs in this context and so are excluded from the calculations.

What is the geographic coverage of the policy/option?		England and Wales			
On what date will the policy be implemented?		Subject to consultation			
Which organisation(s) will enforce the policy?		Charity Commission			
What is the total annual cost of enforcement for these organisations?		N/A			
Does enforcement comply with Hampton principles?		Yes			
Will implementation go beyond minimum EU requirements?		N/A			
What is the value of the proposed offsetting measure per year?		N/A			
What is the value of changes in greenhouse gas emissions?		N/A			
Will the proposal have a significant impact on competition?		No			
Annual cost per organisation (excluding one-off)	£0–£10k N/A	£10k–£25k	£25k–£500k	£500k–£1m £157.40	
Are any of these organisations excluded?	N/A	N/A	N/A	No	
Impact on administrative burdens baseline (2005 prices)					(Increase – Decrease)
Increase	£	Decrease	£850,000	Net impact	–£850,000

Summary: Analysis and Evidence

Policy option: 5

Increase in the threshold for the preparation of accruals accounts to £250,000

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups'
	One-off (transition)	Yrs	
	£ N/A		
	Average annual cost (excluding one-off)		
	£ N/A		
		Total cost	£
Other key non-monetised costs by 'main affected groups'			
BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups'
	One-off	Yrs	
	£		
	Average annual benefit (excluding one-off)		
	£3.6 million		
		Total benefit	£3.6 million
Other key non-monetised benefits by 'main affected groups'			

Key assumptions/sensitivities/risks

Some charities may prefer to continue to prepare accruals accounts. The costs of doing so are assumed to be Business as Usual costs in this context and so are excluded from the calculations. Savings assume that each charity saves the difference in preparation costs between the two types of accounts.

What is the geographic coverage of the policy/option?		England and Wales			
On what date will the policy be implemented?		Subject to consultation			
Which organisation(s) will enforce the policy?		Charity Commission			
What is the total annual cost of enforcement for these organisations?		N/A			
Does enforcement comply with Hampton principles?		Yes			
Will implementation go beyond minimum EU requirements?		N/A			
What is the value of the proposed offsetting measure per year?		N/A			
What is the value of changes in greenhouse gas emissions?		N/A			
Will the proposal have a significant impact on competition?		No			
Annual cost per organisation (excluding one-off)	£0–£10k N/A	£10k–£25k N/A	£25–£100k	£100k–£250k £310.78	
Are any of these organisations excluded?	N/A	N/A	N/A	No	
Impact on administrative burdens baseline (2005 prices)					(Increase – Decrease)
Increase	£	Decrease	£3.6 million	Net impact	–£3.6 million

Summary: Analysis and Evidence

Policy option: 6

Increase in the threshold for stating registered status on documents to £25,000

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups'
	One-off (transition)	Yrs	
	£ N/A		
	Average annual cost (excluding one-off)		
	£ N/A		
		Total cost	£
Other key non-monetised costs by 'main affected groups'			
BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups'
	One-off	Yrs	
	£		
	Average annual benefit (excluding one-off)		
	£191,000		
		Total benefit	£191,000
Other key non-monetised benefits by 'main affected groups'			

Key assumptions/sensitivities/risks

It is highly likely that many charities in the relevant income band will continue to show this information on documentation. The costs of doing so are assumed to be Business as Usual costs in this context and so are excluded from the calculations.

What is the geographic coverage of the policy/option?			England and Wales	
On what date will the policy be implemented?			Subject to consultation	
Which organisation(s) will enforce the policy?			Charity Commission	
What is the total annual cost of enforcement for these organisations?			N/A	
Does enforcement comply with Hampton principles?			Yes	
Will implementation go beyond minimum EU requirements?			N/A	
What is the value of the proposed offsetting measure per year?			N/A	
What is the value of changes in greenhouse gas emissions?			N/A	
Will the proposal have a significant impact on competition?			No	
Annual cost per organisation (excluding one-off)	£0–£10k N/A	£10k–£25k £8.30	Over £25k	
Are any of these organisations excluded?	N/A	No	N/A	N/A
Impact on administrative burdens baseline (2005 prices)			(Increase – Decrease)	
Increase	£	Decrease	£191,000	Net impact –£191,000

Evidence base (for summary sheets)

Note on costs

All costs are taken from or based on the measurements in the Administrative Burdens Reduction (ABR) project. This estimated the costs of complying with charity regulation. The costs used are adjusted to remove Business as Usual (BaU) costs. These are costs that would be incurred whether or not there was a legal requirement.

For charities, a large proportion of regulatory compliance is carried out by volunteers. The costs/savings include a valuation for voluntary work and so do not all represent actual expenditure.

1. Submission of accounts and Trustees Annual Report (TAR)

This change relates only to the requirement to send a copy of the accounts and a TAR to the Commission. It would not affect preparation requirements (but see the next section for a proposal that would remove the requirement on charities under £25,000 to prepare a TAR).

The current £10,000 submission threshold has not changed since its introduction in 1996. Inflation alone would argue for raising this threshold to around £14,500. Recent developments in best practice in regulation now place a greater focus on risk and proportionality than was the case at that time. Taken together we believe these factors argue strongly for an increase in this threshold significantly more than the rate of inflation.

We have therefore recommended that this threshold should be raised to £25,000. This is consistent with our recommendations in other areas. This proposal would free around 23,000 charities from the need to send accounts and a TAR to the Commission annually. This would not bring significant savings in itself as most costs are associated with preparation.

Estimated financial saving is based on submission involving no more than 15 minutes of staff time plus some small costs for copying and postage. Cost per charity is estimated at around £4.50. For charities of this size it is likely that the task will be carried out by one of the trustees and so costs are based on the hourly rate for trustees of £16.23 as used in the Administrative Burdens Reduction project.

Total estimated saving is £100,000 (we believe that this will be a reasonable estimate whether or not the TAR preparation threshold is introduced).

2. Preparation of Trustees Annual Report

The current requirement for all registered charities to prepare a TAR was introduced in 1996.

Recent developments in regulatory best practice now place a greater focus on risk and proportionality than was the case at that time.

We believe that it is now inconsistent with a modern approach to regulation to require small registered charities to prepare a TAR.

We have therefore recommended that a new preparation threshold of £25,000 should be introduced. This is consistent with our recommendations in other areas.

This proposal looks to balance the local accountability of small charities with minimising the regulatory burden on these charities.

We appreciate that many stakeholders value the narrative summary contained in a charity's TAR. We also acknowledge that there may be a small number of cases in which trustees of registered charities may refuse to provide more than the accounts to interested stakeholders.

The TAR also plays a key role in the Commission's proposals for public benefit returns by small charities. The introduction of a TAR preparation threshold would mean that small registered charities would not have routinely to prepare such returns.

There is a risk that a combination of these factors could pose a threat to public trust and confidence in charities.

However, this risk needs to be weighed against the reduced regulatory burden on small charities and their trustees. In addition, there is the safeguard of the Commission's powers to take action where appropriate, powers which apply irrespective of the threshold level.

We believe that, in practice, the vast majority of charities will continue to provide supporters with this type of information where there is a demand for it. Removing the legal requirement will give them greater flexibility to provide the information in a way that better suits the needs of those who have an interest in their work.

Overall, therefore, we have concluded that a preparation threshold of £25,000 would be the best balance between accountability and proportionality, with the benefits to smaller charities and the reduction in regulatory burden outweighing the risks and potential loss of information.

A preparation threshold of £25,000 would remove the need to prepare a TAR from c118,000 registered charities.

The Business as Usual adjusted cost of preparing a TAR for a charity with income below £100,000 taken from the Administrative Burdens Reduction project is £34.54 leading to a total saving of £4.1 million.

3. External examination of accounts (Independent Examination)

Non-company charities between £10,000 and £100,000 are required to have their accounts externally examined. They can choose an Independent Examination rather than audit.

This also applies to non-company charities with income between £100,000 and £500,000 unless their assets are worth more than £2.8 million.

Changes are planned to the regulation of small company charities to align the external scrutiny requirements with that of non-company charities. Small company charities will then also be subject to the above.

While some accounts preparation and examination thresholds were changed by the 2006 Act, the £10,000 threshold for external scrutiny has not changed since 1996 when the relevant provisions of the 1993 Act were implemented.

We have feedback from charities suggesting that it can be difficult to recruit volunteers to carry out an Independent Examination. This can mean that an examiner must be paid for and this may represent a disproportionate cost for smaller charities.

The effects of inflation and the increased focus on proportionality and risk argue for a significant increase. An increase in this threshold also, arguably, follows naturally from the 2006 Act's increase in the audit threshold from £250,000 to £500,000.

We are recommending an increase of this £10,000 threshold to £25,000.

We also considered increasing the threshold to £50,000 but, on balance, we are concerned that the risks of unscrutinised accounts for charities between £25,000 and £50,000 outweigh the regulatory benefits. We have invited comments on these risks, however, and on the merits of a £50,000 external scrutiny threshold.

Savings

The ABR measurements showed that the average cost of an Independent Examination for charities below £100,000, after adjustment to remove Business as Usual costs, was £32.17.

(i) The recommended increase to £25,000 would cover around 37,000 charities (this is higher than the figure for the same increase in the threshold for accounts submission, for example, because it also applies to unregistered excepted charities) giving an annual saving of £1.19 million.

(ii) Comments are also invited on an increase to £50,000. On the same basis this would cover around 60,500 charities giving an annual saving of £1.95 million.

4. Audit threshold

The consultation does not recommend a change to the current threshold of £500,000 (plus a related assets threshold). But comments are invited on increasing it to £1 million with proportionate changes to the asset element. Charities between £500,000 and £1 million could then opt for Independent Examination rather than audit.

On the basis of the original ABR figures, after adjustment for BaU this will save around 5,400 charities a total of £250,000 a year in accounts examination costs (the difference between the cost of audit and Independent Examination).

This would also save around £600,000 in reduced TAR preparation costs because the requirements are more onerous for charities that require an audit.

5. Threshold for preparation of accruals accounts

Non-company charities over £100,000 must prepare accruals accounts. Smaller non-company charities can choose to prepare receipts and payments accounts offering more flexibility in layout and content. Their relative simplicity allows them to be prepared by non-accountants.

Accruals accounts must follow the charities SORP and are more complex than receipts and payments accounts. The feedback we receive from charities suggests this complexity can prove very burdensome to smaller charities.

The £100,000 threshold has not changed since its introduction in 1996. As elsewhere, applying inflation and a modern proportionate and risk-based approach would support a significant increase in this threshold. We therefore recommend that the threshold should be raised to £250,000.

This increase would also be consistent with the general increases in accounting thresholds both in the 2006 Act and as recommended in this paper. On the assumption that such charities would opt for Independent Examination it would also align the need to prepare accruals accounts with the requirement to use a Qualified Examiner who would be better able to advise the trustees about the SORP.

The preparation of accruals accounts would remain an option for charities between £100,000 and £250,000 but they would be able to choose the simpler and less expensive option of preparing receipts and payments accounts.

This would affect around 11,700 registered and unregistered excepted charities.

The total savings are based on the following costs from the original ABR measurement phase. All figures have been adjusted to remove Business as Usual costs.

1. Average cost of preparing accounts for charities with income below £100,000: £9.79
2. Average cost of preparing accounts for charities between £100,000 and £250,000: £320.57
3. Difference in costs between preparation methods: £310.78

Total saving: 11,700 x £310.78 = £3.64 million

In practice some charities between £100,000 and £250,000 may continue to prepare accruals accounts. Some may prefer to do so and other possible reasons include conditions of funding. But the additional cost of doing so would not arise from regulations and so is assumed to be Business as Usual cost in this context.

6. Stating registered status on documents

A registered charity over £10,000 must state that it is registered on a range of documents.

This has not changed since 1995. Inflation and a modern, proportionate and risk-based approach to regulation argue strongly for a significant increase.

We have therefore recommended that this should be increased to £25,000 which would also be in line with other recommended increases from £10,000.

The ABR measurement showed that this requirement cost a charity an average of £8.30 a year (after adjustment for Business as Usual costs).

Increasing the threshold to £25,000 would remove this requirement from around 23,000 registered charities. This would reduce the administrative burden on registered charities by £191,000 in comparison with the position at May 2005.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost–benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	Results in evidence base?	Results annexed?
Competition Assessment	N/A	N/A
Small Firms Impact Test	N/A	N/A
Legal Aid	N/A	N/A
Sustainable Development	N/A	N/A
Carbon Assessment	N/A	N/A
Other Environment	N/A	N/A
Health Impact Assessment	N/A	N/A
Race Equality	No (see below)	No
Disability Equality	No (see below)	No
Gender Equality	No (see below)	No
Human Rights	N/A	N/A
Rural Proofing	N/A	N/A

The consultation includes questions designed to assess this.

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Publication date: December 2007

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Ref: 285037/1207/D8

Prepared for the Cabinet Office and Charity Commission by COI