



HM Government

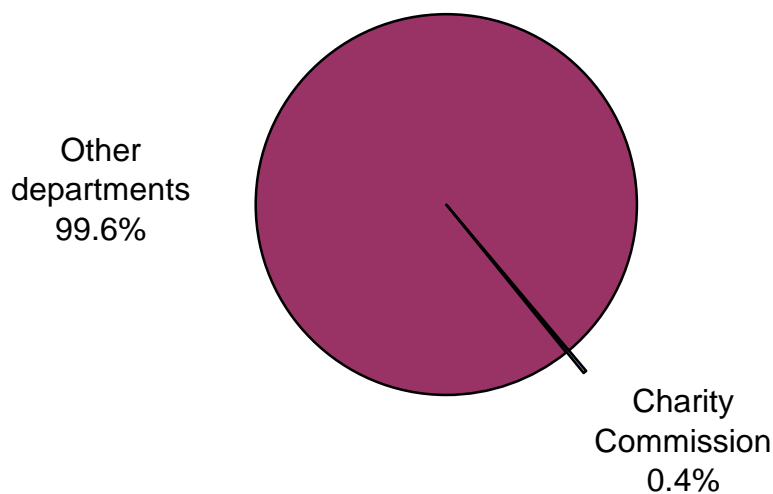
**ADMINISTRATIVE BURDENS OF
REGULATION -
CHARITY COMMISSION**

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As part of the Government's strategy for driving down the administrative burden of complying with regulations, government departments commissioned PwC to work with business and the voluntary sector to estimate the administrative costs of regulation.

This report, produced by the Better Regulation Executive alongside the Charity Commission, provides a high level summary of the burdens relating to the Charity Commission and is adjusted to take account of activity that business would choose to do even if the regulation did not exist (business as usual or BAU); all other adjustments are described in the Annex. This report should be read alongside the Charity Commission's Simplification Plan which sets out a programme of reform to reduce these burdens.

Charity Commission's administrative burdens relative to the cross - government Admin Burden total:



Charity Commission total Administrative Burden is £49.4m

Table 1 – Top Regulations

This table shows, for each of the Charity Commission’s most burdensome regulations: the administrative burden and the proportion of the departmental total the regulation accounts for; how the cost breaks down by source; and whether costs are incurred in providing information to government or third parties either directly or through contracts with suppliers.

Charity Commission									
			% Cost by Origin			% Cost - Non-Third Party		% Cost - Third Party	
Regulation Name	Admin burden (£m's)	% of Dept. Total	A	B	C	Internal Cost	External Cost	Internal Cost	External Cost
Charities (Accounts and Reports) Regulations 2005	£13.3	27.0%	0.0%	0.0%	100%	67.3%	32.7%	0.0%	0.0%
Charities Act 1993	£13.1	26.5%	0.0%	0.0%	100%	75.4%	13.9%	10.7%	0.0%
Charities (Annual Return) Regulations 2005	£10.4	21.1%	0.0%	0.0%	100%	45.6%	54.4%	0.0%	0.0%
Charities (Accounts and Reports) Regulations 2000	£4.8	9.7%	0.0%	0.0%	100%	43.9%	56.1%	0.0%	0.0%
Charities (Annual Return) Regulations 2003	£4.2	8.4%	0.0%	0.0%	100%	100%	0.0%	0.0%	0.0%
Charities (Accounts and Reports) Regulations 1995	£3.6	7.3%	0.0%	0.0%	100%	40.3%	59.7%	0.0%	0.0%
Charities (Receiver and Manager) Regulations 1992	£0.0	0.0%	0.0%	0.0%	100%	100%	0.0%	0.0%	0.0%
Reverter of Sites Act 1987	£0.0	0.0%	0.0%	0.0%	100%	64.8%	0.0%	35.2%	0.0%
Charities (Misleading Names) Regulations 1992	£0.0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	£49.4	100%	0.0%	0.0%	100%				

Table 2 – Top 10 Information Obligations (which represent approx. 75% of total burden)

Government regulations often consist of a number of separate obligations on business and the voluntary sector. To make progress in reducing the administrative burden it is important to know the costs of each of the individual obligations. This table shows the estimated administrative burden for Charity Commission's 10 most burdensome obligations.

Charity Commission		
Information Obligation Description	Regulation Name	Admin burden (£ms)
Providing an annual report.	Charities (Accounts and Reports) Regulations 2005	£9.8
Filing an annual return for the first time or if the gross income in the previous financial year was less than or equal to £250,000.	Charities (Annual Return) Regulations 2005	£7.1
Preparing an annual report (including detail of activities and any other information required) for each financial year.	Charities Act 1993	£5.0
Providing a statement of accounts.	Charities (Accounts and Reports) Regulations 2000	£3.9
Preparing statement of accounts each financial year that comply with standards prescribed by the Secretary of state, and retaining these for 6 years.	Charities Act 1993	£2.1
Registering with the Charity Commission and providing relevant particulars and information regarding the charity.	Charities Act 1993	£2.0
Submitting a trustee update form detailing changes to a charity's trustee body.	Charities (Annual Return) Regulations 2003	£2.0
Completing and submitting an annual return (applies to all charities with gross income or total expenditure of more than £10,000).	Charities (Annual Return) Regulations 2003	£1.7
Making a range of documents available to an auditor or independent examiner for the purposes of inspection by them.	Charities (Accounts and Reports) Regulations 1995	£1.6
Obtaining an auditor's report where statement of accounts has been prepared under the Charities Act 1993.	Charities (Accounts and Reports) Regulations 2005	£1.3
Other Information Obligations.	Other Regulations	£12.8
Total		£49.4

Table 3 – Breakdown of Information Obligation Types

This table shows how the administrative burden and the proportion of the departmental total breaks down by type of information obligation.

Charity Commission		
	Costs	
Information Obligation Type	Admin burden (£m's)	% of Department Total
Returns and reports	£34.8	70.5%
Notification of activities	£5.2	10.5%
Entry in a register	£2.0	4.1%
Carrying out inspections of...	£2.0	4.1%
Cooperating with audits/inspections of...	£1.8	3.6%
Applications for permission for or exemption from...	£1.1	2.3%
Providing statutory information for third parties	£1.1	2.3%
Keeping records	£0.9	1.9%
Statutory labelling for the third parties	£0.2	0.5%
Applications for authorisation	£0.1	0.3%
Total	£49.4	100.0%

Glossary

Administrative costs	The costs of administrative activities that businesses are required to conduct in order to comply with the information obligations that are imposed through central government regulation. These include, for example, form filling, keeping records or responding to information requests.
Administrative burden	The costs of administrative activities over and above what a business would choose to do in the absence of the regulation.
‘Business as usual’	A measure of the activity that organisations would choose to do in the absence of the regulation. All figures in this publication allow for ‘business as usual’ costs.
Standard Cost Model	A pragmatic methodology that provides systematic measurement of the administrative costs of regulation ¹ .
Cost by Origin	A measure of how the administrative burden of the regulation is split between different categories according to the origin of the requirements of the regulation.
‘Category A’	Requirements that are international in origin with no domestic discretion in how they are implemented.
‘Category B’	Requirements that are international in origin with some domestic discretion in how they are implemented.
‘Category C’	Requirements that are domestic in origin.
Information Obligation	A specific requirement that must be fulfilled in order to comply with a regulation. Regulations often consist of a number of separate information obligations.
Non-Third Party Costs	Costs relating to obligations to provide information to a public authority.
Third Party Costs	Costs relating to obligations to provide information to any person or

¹ For further details see:
<http://www.cabinetoffice.gov.uk/REGULATION/reform/simplifying/scm.asp>

	organisation that is not a public sector body, for example employees, consumers or other stakeholders.
Internal Cost	Costs incurred within an organisation's existing resources (such as staff time) in order to comply with a regulation.
External Cost	Costs that an organisation incurs as a result of using external services (such as fees for professional advice or for specialist IT equipment) in order to comply with a regulation.

Annex A

Other Adjustments:

Charity Commission Data adjustment - Re-Measuring the Costs of Preparing the Trustees' Annual Report (TAR)

After the Admin Burdens Reduction measurement exercise (ABR) was completed, further analysis found two anomalies in data on preparing the TAR. One was a population error in the original measurement and the other related to the measurement results. The Charity Commission identified and corrected both anomalies using the approach described below, which led to an adjustment in its admin burden baseline, from £111.9m to £49.4m.

1. ABR measurement of the cost of preparing the TAR

1.1. Initially, after the deduction of business as usual costs and the correction of the population error the ABR costs for the TAR represented 69% of the Commission's baseline and those figures were further analysed as part of the simplification process.

1.2. This pointed, on paper, to two very large automatic savings to charities which did not seem credible. As a result, the Commission re-measured the TAR costs to check the initial ABR measurement and ensure a credible Admin Burden baseline and a stretching target which would result in real savings to the Third Sector.

2. Meeting a 25% Reduction Target

2.1. The savings mentioned in 1.2. were:

(i) On the measurement date in May 2005 all registered charities had an obligation to prepare a TAR. Some charities had still to complete their last reporting cycle under the 2000 Regulations while others had done so and so were due to report under the 2005 regulations.

ABR therefore measured the cost of complying with each set of regulations by the relevant proportion of charities.

Charities measured under the 2000 regulations will all move to reporting under the 2005 regulations well before March 2010. The Commission expected that changes to the regulations would make the 2005 regulations more costly to comply with. **But ABR indicates that compliance with the 2005 requirements is less costly than the 2000 equivalent.**

The original ABR figures therefore indicate that that there would be an Admin Burdens saving for each charity measured under the 2000 regulations as it moved to complying with the 2005 requirements.

ABR indicated that this would reduce costs by £16 million.

(ii) The Charities Act 2006 provides for the audit threshold for unincorporated charities to be raised from £250k to £500k and for a change to the audit threshold for charitable companies that is estimated to have the same effect in this context.

By the time the 2006 Act is implemented all charities will be reporting under the 2005 framework. ABR indicates that charities with income below £250k incur no external costs in preparing the TAR. Those from £250k to £1 million incur substantial external costs. The only apparent distinction between these income bands is that one is below the audit threshold and the other above it.

This strongly indicates, therefore, that charities below the audit threshold do not incur external costs. It would follow that the proposed increase in the audit threshold would remove external costs for charities between the current threshold and the new one.

On this basis the implementation of the 2006 Act would save a further £20 million.

2.2. Consequently, as the above details show, the original ABR figures would lead to a total Admin Burdens saving of £36 million. This would have represented a 32% saving against the Commission's initial ABR post- BAU baseline of £111.9 million.

2.3. In the Commission's view there were serious difficulties with using these figures and the savings that could be claimed as a result.

2.4. The Commission thought that the initial measurement of the TAR against the 2000 and 2005 regulations produced highly inflated figures due to the inclusion of remarkable external costs for charities over the £100k threshold. Further to this, the external costs against the 2000 regulations were higher than the 2005 regulations, which, given the difference in information requirements, is the opposite of what we would expect to see. This means that even allowing for the indicative approach of the ABR measurement, the TAR figures did not seem credible.

2.5. The ABR measurement showed the cost of the TAR as £77.3 million including £66.6 million external costs. The external costs alone represented 59.5% of the Commission's baseline.

3. Why the Figures Seemed Wrong

3.1. The Commission accepted that results being surprising did not guarantee that they were wrong. But the nature of the TAR regulation strongly supported the view that there was an anomaly with the ABR results.

3.2. Some very large charities might have included high production costs for glossy promotional versions of their report, but the Commission did not think this was likely to explain the costs for smaller charities. In any event, such costs should not be captured as an admin burden, as they are effectively costs of promotion not regulation.

3.3. It seemed to the Commission that much of the external costs must relate to the involvement of accountants in the TAR process. Broadly speaking there seemed three ways in which a charity's accountants might be involved.

(i) An auditor has to look for any inconsistency between the TAR and the Accounts. This activity was measured elsewhere in ABR and so should not be included here.

(ii) A charity could simply ask its accountant to prepare the TAR as part of the whole "accounting" package. The Commission is aware that this happens, but do not think it is good practice and it is certainly not necessary. The Report is specifically the trustees' document and they should prepare it.

(iii) Falling short of (ii) the trustees could ask for a significant input from the charity's accountant in preparing the Report. The Commission can see that this may well happen and that such input may be very helpful as a charity prepares its first report or during transitional periods. But for most charities, most of the time the bulk of the work should be done by the trustees.

3.4. The Commission does not know, of course, how the ABR cost broke down, but it did not seem credible that the overall results represented reasonable average costs for all charities.

3.5. For example, it seemed clear that the external costs of preparing the Annual Report should be far less than the cost of an audit report. But ABR figures - before being adjusted for Business as Usual costs - indicated that in most categories of auditable charities, the external costs relating to the preparation of the TAR were 50% to 100% of the cost of the audit report. And in two others, covering more than half of all auditable charities, the average costs were more than 5 times that cost.

3.6. In itself this might equally suggest that the audit costs were too low, but the Commission thought that it was clear from the level of external costs connected with the Annual Report - over £66 million in total - that the only reasonable explanation was that the Report costs were inflated.

4. Re-measurement

4.1. As the above figures make clear, the Commission's disagreement with the initial ABR figures was not based on a concern that they would make it difficult to reach a 25% reduction target. In fact the Commission could have

exceeded its target simply by waiting for the Charities Act 2006 to be implemented.

4.2. But it seemed clear to the Commission that these figures lacked credibility. It followed that any savings claimed on the basis of these figures would also lack credibility. While the ABR figures are no more than indicative it was the Commission's view that the TAR results ran a serious risk of undermining the credibility of all of the Commission's efforts to reduce the burden on charities.

4.3. The Better Regulation Executive, who coordinated the ABR measurement exercise across government, agreed that the Commission should re-measure the costs of preparing the TAR for charities over the £100k threshold. Charities below this threshold were not re-measured. Their costs had been measured separately and appeared reasonable.

5. Re-Measuring

5.1. In consultation with BRE, the Commission decided on the following approach:

- The Commission did not split the population between two sets of regulation, but simply asked charities about the costs of preparing the TAR. At the time of the re-measurement the vast majority of charities would be reporting under the 2005 regulations.
- The Commission used the same income bands as ABR: £100k - £250K, £250K - £1m, £1m - £5m, £5m - £20m and over £20m.
- The Commission used the hourly rates used by ABR.
- The Commission aimed to have usable results from at least 5 charities per income band. While this is clearly a small number it was of a comparative sample size to the indicative method used by ABR.
- Costs were taken to be 36.5 % Business as Usual costs. The original ABR costs were divided in a number of ways. Most were assessed as 35% BaU but others were higher (up to 43%).
- The Commission used a questionnaire that was based on the ABR measurement exercise, but was focused specifically on the TAR in general and on external costs in particular (the questionnaire is attached below).

5.2. The Commission obtained information in three ways all based on the use of the questionnaire included below:

- Commission staff contacted charities by phone

- Commission staff took copies of the questionnaire to charity events they were attending and the Commission also made follow up calls to clarify the information in completed questionnaires.
- Callers to the Commission helpline who had queries about the TAR were asked if they could spare a few minutes to complete the questionnaire by phone.

5.3. The Commission did not have time to include the Expert Assessment of the original ABR process, but believed that this was balanced by the use of a questionnaire that specifically addressed the TAR. Similarly, conversations with charities during the survey involved Commission staff with more knowledge of the TAR process than would have been possible in the original measurement phase.

5.4. Detailed results are included below but in summary the Commission received the following responses (the original ABR results were based on 39 interviews with charities):

Income	Usable Responses	Average Cost (£)	Total Cost (£)
£100k -£250k	9	452	2.85m
£250k - £1 million	13	844	4.4m
£1 m - £5 m	11	598	1.4m
£5m - £20m	5	1119	0.66m
Over £20	5	3310	0.53m
Total	43		9.82m

5.5. When added to the costs for smaller charities this gave total costs of £14.8 million.

5.6. The Commission also received 7 unusable responses:

- Three that did not properly distinguish between preparation costs and other costs. Other costs included design, marketing, PR consultancy and concept development.
- One each from a Scottish charity, an Industrial and Provident Society (neither of which is subject to the TAR requirements being measured) and a charity below the £100k threshold.
- One that did not contain enough information

6. Overall Results and Possible Lessons Learned

6.1. As the Commission expected, this saw a dramatic reduction driven by the difference in external costs. In comparison with the original results there was a 20% increase in internal costs but a 96% reduction in external costs.

6.2. In the Charity Commission survey only 8 charities had relevant external costs. Only one was over £1,000 and two others over £500. No charity with income over £1.1 million had any external costs.

6.3. The survey did, however, offer some clues about the previous results. These comments are, of course, based on a very small sample, but the following points emerged.

- As suggested at 5.6 above, a number of larger charities include the TAR information in a wider annual review publication. The costs of this publication can be far greater than the TAR compliance costs as they can involve design consultants, marketing professionals and high publishing costs, that are outside the scope of the ABR measurement.

Promotional and marketing costs should not be included as a cost for TAR preparation. But a failure to draw this distinction may be a partial explanation of the high external costs in the original results.

- Charities that the Commission spoke to were often unsure that we were only talking about TAR preparation until we had been able to offer further explanation. This suggests a possible confusion over TAR costs and the wider costs associated with accounting that, as above, offers a possible explanation for the previous results.

On a different note some of the responses have added to anecdotal evidence that larger charities are increasingly using the information in the TAR as part of their published annual reviews. It is too early to draw any firm conclusions from this but it is an indication that charities find the TAR format useful.

We will explore this further as we take forward assessment of the TAR process to March 2010 and beyond.

Charity Commission December 2006

Annex B

Re-measurement Questionnaire

Measuring the Cost of the Trustees' Annual Report

Brief Introduction

We want to find out how much it cost registered charities to complete their most recent Trustees' Annual Report (TAR).

This is part of a project to analyse and measure the administrative burden on charities. We will use the results to help us to identify ways of making things easier for charities.

We would like to know:

(i) Who works on the Report within the charity (trustees and staff) and how much time they take to do so.

(ii) Who outside the charity helps with the preparation of the Report (excluding any work the auditor or independent examiner may do to check the report against the accounts).

Questionnaire

1. Charity Details	
(i) Charity Name	
(ii) Charity Registration Number	
(iii) Approximate Gross Income	
2. Who prepares the report?	
Is your TAR prepared entirely by people within the charity (trustees and/or staff)	Yes/No
If No (you get outside help)	
<ul style="list-style-type: none"> • Who provides this help? 	
<ul style="list-style-type: none"> • Approximately how much does it cost the charity for outside help in the preparation of the TAR? <p>(Please give cost for TAR preparation only – not checking by auditor or examiner)</p>	

<ul style="list-style-type: none"> • What kind of external support does this cover? For example: <p>(a) Does the charity's Independent Examiner/Auditor prepare the TAR for the trustees' signature as part of the accountancy services they provide to the charity?</p> <p>(b) Does the charity prepare the TAR but ask its Independent Examiner/Auditor to comment before it is signed off?</p> <p>(c) Does the charity prepare the TAR but sometimes ask its Independent Examiner/Auditor for advice on particular issues?</p> <p>(d) Other (please describe)</p>			
3. Internal Costs			
<p>Who is involved in the preparation of the TAR within the charity?</p> <p>and how many hours were spent by these people in preparing the TAR?</p>		Involved?	Hours
	Chair		
	Treasurer		
	Secretary		
	Other office holder		
	Other Trustee		
	Senior Staff		
	Other staff		
	Volunteers		
4. Respondent Details			
Name of Respondent			
Position Held in Charity			
Contact Details	Telephone: Email:		

Annex C - Summary of Responses to Re-measurement Survey

Income (£)	Chair/Senior Staff (£)	Other Staff (£)	Volunteers (£)	Total Internal Costs (£)	Overheads (£)	External Costs (£)	Total Cost (£)
£100k - £250k							
100k	276.00	17.00	0.00	293.00	0.30	87.90	380.90
100k	81.00	50.00	0.00	131.00	0.30	39.30	570.30
147k	341.00	0.00	0.00	341.00	0.30	102.30	443.30
150k	59.00	0.00	0.00	59.00	0.30	17.70	76.70
150k	195.00	82.50	137.00	414.50	0.30	124.35	738.85
192k	57.00	0.00	0.00	57.00	0.30	17.10	74.10
200k	308.00	0.00	0.00	308.00	0.30	92.40	1,200.40
200k	211.00	33.00	7.00	251.00	0.30	75.30	326.30
211k	195.00	0.00	0.00	195.00	0.30	58.50	253.50
Average	191.44	20.28	16.00	227.72		68.32	451.59
£250k - £1 million							
320k	146.00	0.00	0.00	146.00	0.30	43.80	189.80
367k	114.00	0.00	0.00	114.00	0.30	34.20	148.20
400k	308.00	0.00	0.00	308.00	0.30	92.40	400.40
463k	1,850.00	0.00	0.00	1,850.00	0.30	555.00	2,405.00
500k	406.00	0.00	0.00	406.00	0.30	121.80	527.80
500k	325.00	0.00	68.50	393.50	0.30	118.05	1,011.55
500k	341.00	166.00	0.00	507.00	0.30	152.10	1,059.10
500k	162.00	25.00	0.00	187.00	0.30	56.10	243.10
500k	763.00	0.00	0.00	763.00	0.30	228.90	991.90
500k	81.00	17.00	0.00	98.00	0.30	29.40	377.40
531k	227.00	0.00	0.00	227.00	0.30	68.10	295.10

Income (£)	Chair/Senior Staff (£)	Other Staff (£)	Volunteers (£)	Total Internal Costs (£)	Overheads (£)	External Costs (£)	Total Cost (£)
733k	750.00	0.00	0.00	750.00	0.30 225.00	1,500.00	2,475.00
800k	650.00	0.00	0.00	650.00	0.30 195.00	0.00	845.00
Average	471.00	16.00	5.27	492.27	147.68	203.85	843.80
£1 - £5 million							
1.1m	260.00	25.00	0.00	285.00	0.30 85.50	500.00	870.50
1.14m	325.00	0.00	0.00	325.00	0.30 97.50	0.00	422.50
1.3m	650.00	0.00	0.00	650.00	0.30 195.00	0.00	845.00
1.7m	114.00	0.00	0.00	114.00	0.30 34.20	0.00	148.20
2m	211.00	331.00	0.00	542.00	0.30 162.60	0.00	704.60
2m	390.00	17.00	0.00	407.00	0.30 122.10	0.00	529.10
2m	438.00	0.00	0.00	438.00	0.30 131.40	0.00	569.40
2.2m	406.00	0.00	0.00	406.00	0.30 121.80	0.00	527.80
2.4m	162.00	0.00	0.00	162.00	0.30 48.60	0.00	210.60
2.8m	650.00	0.00	0.00	650.00	0.30 195.00	0.00	845.00
4m	617.00	83.00	0.00	700.00	0.30 210.00	0.00	910.00
Average	383.91	41.45		425.36	127.61	45.45	598.43
£5 - £20 million							
5.3m	829	0	0	829	0.3 248.7	0	1077.7
10m	1,415.00	0.00	0.00	1,415.00	0.30 424.50	0.00	1,839.50
12m	470.00	0.00	0.00	470.00	0.30 141.00	0.00	611.00
13m	1,217.00	0.00	0.00	1,217.00	0.30 365.10	0.00	1,582.10
16m	373.00	0.00	0.00	373.00	0.30 111.90	0.00	484.90
Average	868.75			868.75	260.63		1,119.04

Income (£)	Chair/Senior Staff (£)	Other Staff (£)	Volunteers (£)	Total Internal Costs (£)	Overheads (£)	External Costs (£)	Total Cost (£)
Over £20 million							
38m	130.00	166.00	0.00	296.00	0.30	88.80	384.80
86m	3,586.00	0.00	0.00	3,586.00	0.30	1,075.80	4,661.80
110m	1,175.00	0.00	0.00	1,175.00	0.30	352.50	1,527.50
115m	4,834.00	290.00	0.00	5,124.00	0.30	1,537.20	6,661.20
347.8m	2,256.00	290.00	0.00	2,546.00	0.30	763.80	3,309.80
Average	2,396.20	149.20	0.00	2,545.40	0.30	763.62	3,309.02

Annex D

Revised TAR Costs

Income	No of Charities	Average Cost	Total Cost	BaU	Total for Baseline
Registered Charities					
100 - 250k	9,926	452	4,486,552	0.635	2,848,961
250k - 1m	8,223	844	6,940,212	0.635	4,407,035
1m - 5m	3,618	598	2,163,564	0.635	1,373,863
5m - 20m	925	1119	1,035,075	0.635	657,273
Over 20m	252	3310	834,120	0.635	529,666
	22,944		15,459,523		9,816,797
0-100k	144,363	34.54		Already Adjusted	4,985,937
Total	167,307				14,802,734

Excepted and Exempt: 12,550 over £100k including 7200 FVS (to cross threshold over 6 years)

Potential Total Addition to Baseline

Non FVS

100 - 250k	2,345	452	1,059,940	0.635	673,062
250k - 1m	1,919	844	1,619,636	0.635	1,028,469
1m - 5m	854	598	510,692	0.635	324,289
5m - 20m	169	1119	189,111	0.635	120,085
Over 20m	63	3310	208,530	0.635	132,417
Total	5,350				2,278,322

1200 FVS (number over £100k in any one year)

100 - 250k	525	452	237,300	0.635	150,686
250k - 1m	430	844	362,920	0.635	230,454
1m - 5m	190	598	113,620	0.635	72,149
5m - 20m	40	1119	44,760	0.635	28,423
Over 20m	15	3310	49,650	0.635	31,528
Total	1,200				513,239

Overall Total

FVS (in any one year 6,000 will be below £100k)

Under 100k	6,000	34.54		Already Adjusted	207,240
1200 as above					513,239
<i>Total FVS</i>					<i>720,479</i>
Non FVS					2,278,322
Total					2,998,801

Above Assumes that all FVS remain on register in the 5 of each 6 years they are below £100k