

**CHARITIES
(ACCOUNTS AND REPORTS)
REGULATIONS 2005**

**REGULATORY IMPACT ASSESSMENT
FOR
CHARITIES
(OTHER THAN INVESTMENT FUND CHARITIES)**

MARCH 2005

1 Proposal

- 1.1 This Regulatory Impact Assessment (RIA) examines the impact of the introduction of new accounting and reporting Regulations to replace those currently placed on charities (other than Investment Fund Charities) in England and Wales by The Charities (Accounts and Reports) Regulations 2000 SI 2868 and The Charities (Accounts and Reports) Regulations 1995 SI 2724. The impact on Investment Fund Charities is examined in a separate RIA.

Purpose and intended effect of measure

2.1 The objective

- 2.1.1 The accounting requirements of the Regulations make provision for the form and content, methods and principles and notes to the accounts. The objective of the proposed changes is to ensure the accounting requirements continue to provide a framework relevant to charities' reporting needs and to maintain appropriate accountability to a charity's stakeholders and the wider public for the resources they control. The proposed changes seek to enhance consistency in financial reporting and to enable the application of UK Generally Accepted Accounting Practice (UK GAAP) in a manner consistent with charity sector financial reporting needs and the particular transactions undertaken within the charity sector. In particular the Regulations are updated to adopt the methods and principles of the proposed revision of the "Statement of Recommended Practice: Accounting and Reporting by Charities" (the Charities SORP) which has taken forward, as part of its revision, key recommendations contained in The Strategy Unit Review "Private Action, Public Benefit" which was published in September 2002.
- 2.1.2 The annual reporting Regulations provide for a review of the activities of the charities with an objective of enabling the reader to interpret better the financial information provided within the accounts as well as providing other information relating to the charity, its trustees or officers. The objective of these changes is to ensure this framework remains relevant to the reporting needs of charities and users of the annual report. The proposed changes again take forward key recommendations of the Strategy Unit Review in particular by strengthening the reporting focus on achievements against objectives.

2.2 Devolution

- 2.2.1 The Regulations only apply to charities in England and Wales and would not impact on charities based in Scotland and Northern Ireland.
- 2.2.2 The Scottish Executive is preparing to consult on new charity accounting and reporting Regulations for Scotland to take effect when the Charity and Trustee Investment (Scotland) Bill is implemented. These Regulations are being drawn up taking account of the expected revision of the Charities SORP.

2.3 The background

Legal framework

2.3.1 Part VI of the Charities Act 1993 (the Act) provides the accounting and reporting framework for charities. Part VI of the Act confers powers upon the Secretary of State to make Regulations to support the accounting and reporting framework. The proposals primarily affect the Regulations made under Sections 42 and 45 which provide for:

- the content of the annual report;
- the form and content of accounts;
- the methods and principles adopted in preparing accounts; and
- information to be provided by way of notes to the accounts.

Accounting requirements

2.3.2 The existing Regulations require the methods and principles of the Statement of Recommended Practice: Accounting and Reporting by Charities (the Charities SORP) issued in October 2000 to be applied by charities in preparing their accounts. The Charities SORP provides specific recommendations for the implementation of UK GAAP in the context of the particular circumstances of charities. It is published by the Charity Commission, as the SORP-making body, and is prepared under the Accounting Standards Board's (ASB) code of practice for SORPs which includes public consultation on the recommendations that are developed in conjunction with an independent advisory committee.

2.3.3 UK GAAP and developments in charity accounting are not static and the Charities SORP must, under the ASB's code of practice, be reviewed regularly to ensure its recommendations keep pace with change. Since the publication of the Charities SORP in October 2000 there have been a number of significant changes to Financial Reporting Standards and the ASB has also issued a Proposed Interpretation for Public Benefit Entities of the Statement of Principles for Financial Reporting.

2.3.4 The Strategy Unit Review also identified in its recommendations, areas where the Charities SORP could be developed to assist financial comparability and strengthen its focus on achievements against objectives. The Government supported these recommendations recognising that the development of these issues should take place within the context of the SORP-making process.

2.3.5 The Government also indicated a willingness to support these developments through necessary amendment to the accounting and reporting Regulations. Responding to these changes and

developments a review of the Charities SORP has been undertaken with a view to issuing an updated SORP early in 2005. It is necessary for the new Regulations to disapply the existing Charities SORP to facilitate the issue of its revision and to adopt the methods and principles of the revised Charities SORP so that law and recommended practice are consistent and come into play at the same time.

- 2.3.6 The charity sector has played an active role both in informing the Strategy Unit Review and in researching and developing proposals for the future development of the Charities SORP. Research projects such as the Charity Finance Directors' Group's "Inputs Matter" project have assisted in identifying practical issues arising from the existing Charities SORP and research work sponsored by the Institute of Fundraising identified issues relating to the classification of fundraising costs which have been taken forward by the SORP review. The work of the Association of Chief Executives of Voluntary Organisations (ACEVO) in relation to cost allocation contained in "Funding Our Future II: Understand and Allocate Costs" also informed the work of the SORP review.
- 2.3.7 The new Regulations will require charities to apply the methods and principles of the revised Charities SORP in preparing accounts and ensure information presented in notes to the accounts is consistent with its key recommended disclosures. The new Regulations, in so doing, will ensure the legal framework provided is consistent with the revised Charities SORP which addresses changes in UK GAAP, the accounting recommendation of the Strategy Unit Review and sector developments.

Annual Reports

- 2.3.8 The Regulations also set out the legal requirements for an annual report prepared by the charity trustees. These legal requirements are supplemented by the more detailed recommendations and guidance provided by the Charities SORP. The annual report provides a review of the activities of the charities enabling the reader to interpret better the financial information provided within the accounts as well as providing other information relating to the charity, its trustees or officers.
- 2.3.9 There has been considerable public debate in recent years about how well charities report on the effectiveness and efficiency of their work. The National Audit Office (NAO) gave support in its recent report on the Charity Commission to the proposition that there was a need for improvement to enable the reader to understand charities' objectives, structure, activities and achievements. The Strategy Unit Review also identified a need for the Charities SORP to strengthen its focus on reporting achievements against objectives, organisational impact and future strategy. These recommendations have been taken forward both in the new Regulations and the SORP review.

2.3.10 The new Regulations also take forward the Strategy Unit Review's recommendations for the annual report to contain governance information in relation to the induction and training of new trustees and to provide information to supporters as to any ethical stance taken by a charity in determining its investment policies.

2.4 Risk assessment

2.4.1 In the absence of new Regulations the introduction of a revised Charities SORP would be problematic. SORPs need to be consistent with the legal requirements framework provided by the Regulations. Without updated Regulations the development of relevant accounting and reporting framework for charities would be impeded. In particular, the accounting and reporting recommendation of the Strategy Unit Review accepted by Government and taken forward in the SORP review could not be implemented.

2.4.2 A failure to introduce new Regulations gives rise to the following risks:

- the existing Charities SORP becomes of limited impact and with the passage of time less and less relevant in providing an authoritative and consistent interpretation of how accounting standards should be applied in the particular circumstances of the charity sector;
- the accounting Regulations fail to reflect developments in UK GAAP;
- inconsistent approaches and interpretations might be adopted within the charity sector with an increasing loss in comparability and transparency giving rise to an indirect impact on trust and confidence in the sector; and
- enhanced accountability (through more focused reporting of a charity's aims and objectives, activities undertaken and the resulting achievements) would be lost, inhibiting the development of performance reporting within the charity sector.

3. Options

3.1 Option 1: Retain the 1995 and 2000 Regulations

3.1.1 This option may prevent the publication and issue of a revised SORP and result in the accounting framework set by Regulations not fully reflecting developments in UK GAAP. This is likely to result in the risks identified in the previous risk assessment section crystallising.

3.1.2 If a new Charities SORP were to be published and issued (notwithstanding the inconsistency this would create with legal requirements) this would create a dual regime whereby charities that are companies would adopt the revised Charities SORP to comply with UK GAAP while non-company charities could only comply by breaching legal requirements. This would fragment the accountancy framework applicable to charities and create a legal requirement for non-company

charities inconsistent with UK GAAP creating two frameworks for the interpretation of true and fair.

- 3.1.3 Retaining the existing Regulations would also limit the impact of certain de-regulatory measures. In particular, the disclosure exemptions for smaller charities would continue to operate up to an income threshold of £250,000 rather than applying only where a statutory audit requirement existed. (The Charities Bill proposes a £500,000 income and £2.8 million assets).
- 3.1.4 Retaining the existing Regulations would prevent the implementation of certain key recommendations of the Strategy Unit's Report 'Private Action, Public Benefit' which have, following separate consultation, been accepted by Government.

3.2 Option 2: Implement the Regulations

- 3.2.1 This option involves the introduction of new Regulations replacing both the existing 2000 Regulations and 1995 Regulations. The new Regulations would be consistent with the revised Charities SORP and take forward those recommendations of the Strategy Unit Review endorsed by Government. The new Regulations would also consolidate existing provisions for the financial year of a charity, the reporting duties and rights of auditors and independent examiners, contained in the 1995 Regulations.

4. Benefits

4.1 Option 1: Retain the 1995 and 2000 Regulations

- 4.1.1 Retaining the existing Regulations might in theory result in no increase in compliance costs. However, in addition to impeding the application of a revised SORP and enhanced annual reporting, indirect costs would arise. In particular, charities would need to determine individually how to apply developments in UK GAAP to their particular circumstances in the absence of authoritative guidance provided through the revised Charities SORP.

4.2 Option 2: Implement the Regulations

- 4.2.1 The new Regulations ensure the continued relevance of the accounting and reporting framework. In particular they:
- ensure accounting methods and principles adopted in preparing charities' accounts are those of the revised Charities SORP;
 - ensure information provided by notes to the accounts are presented in a manner consistent with the revised Charities SORP;
 - ensure the Regulations are consistent with developments in UK GAAP; and

- enable Strategy Unit Review recommendations accepted by Government to be carried forward.

4.2.2 The Strategy Unit Review indicated that better information would not only boost public confidence and assist decision-making but could, by focusing attention in this area, strengthen incentives for charities to evaluate and improve their performance. The new Regulations, in strengthening governance reporting and the reporting of achievements against objectives, seek to contribute to the development of a clearer focus on the reporting performance. The contribution such reporting makes to the efficiency and effectiveness of the sector is impossible to gauge. However, if the sector's effectiveness improved by only a tenth of one percent (0.1) of the income of those charities affected (£31.9 bn) this would result in benefits of £31.9 m

5. Business sectors affected

- 5.1 There are approximately 9,900 non - company charities registered with the Charity Commission with income in excess of £100,000 who must produce accruals accounts. That said, several hundred of these charities will be Registered Social Landlords or Further and Higher Education Institutions which will not be required by the Regulations to follow the methods and principles of the Charities SORP, as a more specialist SORPs apply.
- 5.2 The accounting requirements of the Regulations apply to excepted charities but such charities are not required to produce an annual report unless directed by the Charity Commission to do so. The exact number of excepted charities is not precisely known but in 2000 it was estimated at over 100,000 which includes many Scout and Guide charities, various religious charities, armed forces charities and some charities owning foundation schools. We are aware that some groups of excepted charities might not currently be following the accounting requirements of the Regulations. The vast majority of such charities have incomes well below the £100,000 income threshold that requires the preparation of accruals accounts. We estimate that up to 5,000 excepted charities might have annual income in excess of £100,000.
- 5.3 The accounting and reporting requirements of the Regulations do not apply to exempt charities although non-departmental public bodies (NDPBs) with charitable status follow the requirements of the Charities SORP in order to comply with government accounting requirements but not the Regulations.
- 5.4 Charities that are companies are not affected by the accounting requirements of the Regulations but will apply the methods and principles of the Charities SORP to assist in their compliance with UK GAAP. The annual reporting requirements of the Regulations do however apply to charitable companies. There are approximately 8,000 charitable companies with an income over the £250,000 income threshold that would be affected by the additional annual reporting requirements of the new Regulations.

- 5.5 Those who scrutinise (audit or examine) the accounts of charities will need reasonable knowledge of the new Regulations and the methods and principles of the revised Charities SORP. We have no precise data as to the number of accountancy practices or independent examiners actively involved in charity scrutiny assignments. We estimate that up to 1,000 audit engagement partners and 1,000 individuals who offer independent examination services may be affected.

6. Race impact assessment

- 6.1 It is not considered that the proposed changes will bring disproportionate benefits or costs to any particular group. Research conducted by the Council for Ethnic Minority Organisations (CEMVO) suggests that the majority of BME organisations are small, with an income of less than £10,000 per annum, and so would not be affected by the proposed Regulations.

7. Sustainable development

- 7.1 Consideration has been given to whether these proposals will have costs or provide benefits to environmental protection, social values and progress, or the economy's long term growth and development. The proposals for charities to disclose any ethical investment policy could have a positive long term impact in this regard. The proposals would not lead to any disproportionate adverse impact.

8. Costs

8.1 Compliance costs

- 8.1.1 There will be no compliance costs for other businesses as the Regulations affect only the Charity sector.

8.2 Option 1: Retain the 1995 and 2000 Regulations

- 8.2.1 If the Regulations are not changed, an indirect cost will arise through each individual charity having to determine how developments in UK GAAP should be applied. The existing methods and principles applied by the Regulations would have to be updated for developments in UK GAAP which have occurred since October 2000 and interpreted by each individual charity. In so far as a failure to update the Regulations could impede the issue of a revised Charities SORP, any indirect cost would also impact on charities which are not companies.

- 8.2.2 It is estimated that charities with:

- income of over £10m would need at least three days' private study to assimilate changes to UK GAAP;
- income of between £1m and £10m would require at least one and a half days;

- income over £100K but below £1m are likely to place greater reliance on their auditor or independent examiner to help ensure implementation of the UK GAAP although some background study of a day is estimated;
- exception from registration would adopt a similar approach to that of the £100k to £1m income band.

8.2.3 Using these assumptions and based on the following cost estimates:

Cost of Staff time per day (larger charities over £10m)	£200 per day (assuming staff pay of £50,000 per annum,
Cost of Staff time (charities £1m to 10m)	£140 per day (assuming staff pay of £35,000 per annum)
Cost of Staff time per day (less than £1m)	£100 per day (assuming staff pay of £25,000)

The following costs arise:

Income band/category	Non-Company charities	Company Charities	Days	Cost per day £	Total Cost £
Over £10m	138	365	1,509	200	301,800
£1m to £10m	1,016	2,985	6,002	140	840,280
£100k to £1m	8,757	8,730	17,487	100	1,748,700
Excepted charities	5,000**	-	5,000	100	500,000
Total	14,911	12,080	29,998		£3,390,780

* based on Charity Commission's register profile at 30 September, 2004.

** excepted charities assumed to be non-company charities.

8.3 Option 2: Implement the Regulations

8.3.1 The introduction of a revised Charities SORP creates a compliance cost in terms of creating a need for charities to familiarise themselves with the revised accounting recommendations which may involve a training cost. The revision results in certain modifications to the format of the SoFA that may also involve amendments to comparative figures

and in certain cases changes to the accounting policies for the recognition of assets and liabilities.

- 8.3.2 In quantifying compliance costs resulting from the new Regulations, it needs to be recognised that, in the absence of Regulations, the recommendations of the Charities SORP would nevertheless be indicative of how charities meet the legal requirement to present a true and fair view. It can be argued that the compliance cost arises primarily through the introduction of a revised SORP and from developments external to the Regulatory process. The alternative view would be to attribute to the Regulations the full cost of the sector's implementation of a revised Charities SORP.
- 8.3.3 There are approximately 9,900 non-company charities registered with the Charity Commission that are required to prepare accounts on an accruals basis that give a true and fair view. It is further estimated that some 5,000 excepted charities are required to produce accruals accounts.
- 8.3.4 Larger charities with annual income in excess of £1m will tend to employ their own finance staff who take responsibility for the drafting of statutory accounts. It is anticipated that finance staff will address training needs through a combination of private study of the text of the revised Charities SORP and related Charity Commission literature that explains and highlights key changes and/or through attendance at seminars held by specialist audit firms, professional bodies, umbrella groups and the Charity Commission.
- 8.3.5 It is estimated that the changes proposed by the revised SORP could be assimilated in two days private study and that training courses explaining the changes are likely to be structured as half day courses. Most seminars addressing the revised SORP are likely to be made available free of charge or at low cost but for these purposes an average cost, including travel, of £125 is assumed.
- 8.3.6 Smaller charities with annual income of less than £1m will often rely to a greater extent on their auditors or independent examiners to ensure statutory accounts are prepared in accordance with the methods and principles of the Charities SORP. It is also anticipated that such charities will place greater reliance on publications summarising the changes and make greater use of pro forma accounts packages prepared by the Commission. In this way the key changes of the revised SORP can be addressed in a day's private study.
- 8.3.7 It is estimated that charities with:
- income of over £10m would train two members of staff both attending training courses;
 - income of between £1m and £10m would train one member of staff who would also attend a training course;

- income of over £100K but below £1m are likely to place reliance on their auditor or independent examiner to help ensure implementation of the revised SORP although some background reading of guidance (1 day) is still desirable. It is further estimated that half of such charities would send one staff member on a training course;
- excepted from registration would adopt a similar approach as that of the £100k to £1m income band with only a quarter of such charities sending a staff member on a training course.

8.3.8 Using these assumptions and based on the following cost estimates:

Cost of half day training seminar	£125.00
Cost of Staff time per day (larger charities over £10m)	£200 per day (assuming staff pay of £50,000 per annum)
Cost of Staff time (charities £1m to £10m)	£140 per day (assuming staff pay of £35,000 per annum)
Cost of Staff time per day (less than £1m)	£100 per day (assuming staff pay of £25,000)

The following training costs arise:

Income band	Number of charities	Study days	Private study costs	Course days	Staff costs of attending course	External course costs	Total cost
Over £10m	138	552	£110,400	138	£27,600	£34,500	£172,500
£1m to £10m	1,016	2032	£284,480	508	£71,120	£127,000	£482,600
£100k to £1m	8,757	8,757	£875,700	2189	£218,900	£547,250	£1,641,850
Excepted charities	5,000	5,000	£500,000	625	£62,500	£156,250	£718,750
Total	14,911	16,341	£1,770,580	3,460	£380,120	£865,000	£3,015,700

8.3.9 The adoption of the methods and principles of the SORP will involve certain re-analysis of costs in the Statement of Financial Activities that may also result in some restatement of comparative figures. The information required for this analysis will be available from accounting records and therefore implementation costs will relate to the summarisation of such data and their insertion into the primary

statements. Certain charities may also have to review accounting policies in relation to recognition principles. However, in so far as this latter change stems from developments in accounting standards and principles, such costs arise irrespective of the adoption of the methods and principles of the Charities SORP.

8.3.10 It is estimated that these aspects of implementation would involve charities with income in excess of £10m with up to three days' work, charities in the £1m to £10m in two days' work and charities below the £1m threshold in a day's work with a similar implementation cost applying to excepted charities.

8.3.11 On the basis of these estimates the following one-off implementation costs arise:

Income band/category	Number of charities	Staff days	Total
Over £10m	138	414	£82,800
£1m to £10m	1,016	2,032	£284,480
£100k to £1m	8,757	8,757	£875,700
Excepted charities	5,000	5,000	£500,000
Total	14,911	16,203	£1,742,980

Charities below £100,000

8.3.12 Charities with income below £100,000 may opt to prepare their accounts on a receipts and payments basis. The accounting Regulations do not apply to accounts prepared on this basis. Therefore in so far as the Act allows charities in this band the ability to choose whether or not to prepare accounts on the accruals basis to give a true and fair view, the Regulations will impose no compliance cost.

8.3.13 Charities may choose to adopt the accruals accounting basis if that framework is best suited to their needs and would then be required to apply the methods and principles of the Charities SORP. Many charities do prefer to prepare accounts to give a "true and fair view" as required of accruals accounts. Charities within this category who prepare accruals accounts tend to rely on trustees or volunteers with knowledge of accounting or place reliance on their auditors or examiners to provide an accounts preparation service. The training costs involved for auditors and examiners is considered in the following section. The Charity Commission also produces pro forma accounts packs for such charities who wish to prepare their own accounts on an accruals basis.

Audit and examination

8.3.14 Auditors undertaking assignments in any sector where a SORP applies require a reasonable understanding of the recommendations of any applicable SORP. This presumption of reasonable understanding would apply equally to charity auditors. In so far as auditors of charities that are companies would need to acquire such requisite skills to undertake their audit, the adoption of the methods and principles of the SORP for non-company charities would only have a marginal impact on their training needs where such firms act for both company and non - company charities.

8.3.15 For illustrative purposes, we include an estimate of the one-off training costs for accountancy firms and businesses. Some firms may absorb these costs as an internal training overhead, other may pass on these costs in whole or in part to their charity clients.

8.3.16 We estimate that as many as 1,000 audit partners may have charity audit clients with income in excess of £100,000. Such partners will primarily acquire such knowledge through private study although larger firms with specialist charity sections may provide specialist training staff as part of their programmes for ongoing professional development. The changes to the Charities SORP can be assimilated in two days' private study by those requiring expert knowledge and in one day by those requiring reasonable knowledge. We estimate that up to 1,000 partners and 2,000 staff would avail themselves of such study. On the assumption of a charity audit partner's pay being £100,000 and staff pay of £35,000 the following costs arise:

Staff level	Number	Days	Cost per day	Total cost
Partners (2 day's study)	500	1,000	£ 400	£400,000
Partners (1 days study)	500	500	£ 400	£200,000
Staff (1 day study)	2000	2000	£140	£280,000
Total	3000	3,500		£880,000

(These above costs are included for illustrative purposes only as auditors of charitable company would need to acquire reasonable knowledge to undertake their duties in the absence of Regulations)

8.3.17 Some of these audit partners will also undertake independent examinations but in addition to this many individuals also undertake independent examination assignments. We estimate that as many as 1,000 individuals may undertake such work for charities preparing

accruals accounts, some on a voluntary basis. As such individuals would not normally be involved in charity audits, a cost exists for such individual to become acquainted with the changes to the Charities SORP. We anticipate such knowledge would again be gained from private study. We anticipate a full day's private study being necessary to assimilate the changes. An estimated lost opportunity cost of £25,000 has been assumed for independent examiners. Many independent examiners would acquire their skills through their involvement as staff of other charities or as staff members of audit firms that undertake charity work. These cost savings have been ignored in the calculations.

Number of Examiners	Study days	Cost per day	Total cost
1,000	1,000	£100	£100,000

Trustees' annual report

8.3.18 The annual report Regulations do not directly adopt the recommendations of the Charities SORP but rather set out the information to be contained in the review of activities and the information to be provided relating to the charity, its trustees and officers. The Charities SORP expands on these requirements as a matter of recommended practice. The annual report Regulations also apply to companies that are charities and therefore the cost of compliance includes those costs that will arise in the context of charitable companies.

8.3.19 The changes proposed by the new Regulations to the content of the annual report apply primarily to auditable charities. The most significant change to the annual report is in the way in which auditable charities are required to report their activities, in particular, reporting their achievements by reference to the aims and objectives set by charity. The Regulations do not require a charity to adopt any particular approach or methodology in setting objectives or impose any particular methods for the reporting of achievements measured against those objectives.

8.3.20 The existing Regulations already require that a charity should report its achievement in relation to its objects and therefore procedures are likely to exist for the collection and collation of relevant information for existing reporting purposes. The new Regulations do however create a potentially new compliance cost in that achievement is measured by reference to the objective set by the charity. This will result in a different emphasis in how information is presented and will therefore give rise to a one-off compliance cost on implementation.

8.3.21 The additional disclosures relating to any ethical considerations are taken into account in setting investment policies and should not involve

additional information collation costs. The disclosure of the procedures adopted for trustees' induction and training are also unlikely to create any significant increase in the information collated for the preparation of the report. Similarly, enabling the disclosure of social and programme related investment policies as part of grant making policies is unlikely to create a need to collate new information. In relation to reserves policies, identifying the amount of designated funds excluded from the income reserves calculation creates no additional information costs as designations will usually be provided within the financial disclosures of the accounts. The implementation costs of these disclosures are therefore not considered to be significant.

8.3.22 The Charity Commission has changed its policy in relation to CIFs, other than pooling schemes, requiring them to have governance arrangements similar to authorised unit trusts. These changes mean that amendments are needed to disclosures provided in the annual report and reporting responsibilities.

8.3.23 The costs of implementing the changes to the annual report are likely to vary according to the size and complexity of the charity. It is also assumed that the salary costs of staff involved in this work will reflect these differing levels of complexity. The restructuring of existing information and its presentation in line with this new reporting focus could take between as little as an hour in a single objective charity to several days in a particularly complex charity. For the purposes of these calculations it is assumed that two days' work is involved in charities with income over £10m, and a day for charities between £1m and £10m and a half day in charities with income less than £1m.

8.3.24 Using these assumptions and based on the following cost estimates:

Cost of Staff time per day (larger charities over £10m)	£120 per day (assuming staff pay of £30,000 per annum)
Cost of Staff time per day (charities £1m to 10m)	£100 per day (assuming staff pay of £25,000 per annum)
Cost of Staff time per day (less than £1m)	£80 per day (assuming staff pay of £20,000)

The following one-off implementation costs arise:

Income band	Non-Company charities	Company Charities	Days	Cost per day	Total Cost
Over £10m	138	365	1,006	£120	£120,720
£1m to £10m	1,016	2,985	4,001	£100	£400,100
£250k to £1m	3,047	4,646	3,846	£80	£307,680
Total	4,201	7,996	8,853		520,820

8.4 Cost Summary

Option 1: Retain the 1995 and 2000 Regulations

8.4.1 The failure to issue new Regulations would impede the issue of a revised Charities SORP and result in each individual charity interpreting UK GAAP for its own accounts preparation purposes. Estimated cost: £3,390,780.

8.4.2 No benefits are identified under this option.

Option 2: Implement the Regulations

8.4.3 Compliance costs summary:

One-off cost to charities of staff training	£3,015,700
One-off costs to charities of implementing accounting “methods and principles”	£1,742,980
One-off costs to charities of implementing annual reporting requirements	£520,820
Total sector costs	£5,279,500
Total annual income of registered charities affected by Regulations (excluding excepted charities)	£31,909,212,116
Sector costs as percentage of sector income *	0.016 per cent
One - off training costs for auditors	£880,000
One - off training costs for independent examiners	£100,000
Total costs to auditors and examiners	£980,000
Total compliance costs	£6,259,500

* This percentage would decline further if the income of excepted charities were included.

8.5 Other costs

8.5.1 There are not anticipated to be any other costs.

8.6 Costs for a typical charity

8.6.1 A typical registered non-company charity of the size affected by the Regulations that is subject to both the accounting and reporting Regulations will, we estimate, face a one-off implementation cost of £360.

9. Consultation with small business: the Small Firms’ Impact Test

9.1 The small Business Service has confirmed that it not thought that the Regulations will have a significant effect on small businesses.

10. Competition Assessment

- 10.1 The competition filter test indicates that the proposed regulations give no competition concerns.

11. Enforcement and sanctions

- 11.1 The proposed Regulations will, if necessary, be enforced under existing provisions of the Charities Act and will result in no additional enforcement costs.

12. Monitoring and review

- 12.1.1 The legislation will be monitored on an ongoing basis by the Charity Commission who receive annual reports and accounts from all registered charities with income of over £10,000 per annum. A full review of the regulations will take place in 5 years, or earlier if there are found to be causes for concern.

13. Consultation

13.1 Within government

- 13.1 The Home Office have consulted with the Charity Commission, Department of Trade and Industry and HM Treasury on this matter.

13.2 Public consultation

- 13.2.1 The Regulations were exposed to public consultation between 24 November 2004 and 18 February 2005. The consultation was circulated to 258 organisations that included a range of charities, key umbrella groups, charity auditors and professional bodies with interests in accounting and reporting requirements. In addition the consultation was published on the Home Office web site and highlighted by the Charity Commission in the "Sector News" section of their web site. Responses were received from 29 organisations or individuals.

- 13.2.2 The Charity Commission undertook a separate consultation in relation to proposals to issue a revised Charities SORP applicable to charities for accounting periods commencing on or after 1 April 2005. This consultation closed on 1 October 2004 and the Accounting Standards Board issued their certificate on the revised Charities SORP on 28 February 2005.

- 13.2.3 Of the 29 responses received 22 were considered supportive of both the need for regulations and the direction proposed. A number of respondents gave their general support but chose not to answer all or some of the specific questions raised by the consultation. Of the remaining seven responses, three responses focused on single issues and did not provide a general indication of their support or otherwise. One respondent raised concerns as to the applicability of the provisions to grant making charities. Only three respondents were

clearly not supportive, one of these suggested the result would be greater conformity rather than greater transparent and two other respondents felt the Regulations and indeed to SORP were not well suited to the needs of Army Service Public Fund charities.

14 Summary and recommendation

- 14.1 Our clear preference is for option 2. It best meets the objective of providing an accounting and reporting framework relevant to charities' reporting needs and creating appropriate accountability to charities' stakeholders and the wider public for the resources they control. It provides a framework that is consistent with UK GAAP, prevents a fragmentation of the charity accounting regime and takes forward key Strategy Unit Review recommendations.
- 14.2 Although significant one-off implementation costs to the charity sector arise, estimated at £ 5.3m, these are necessary to maintain the relevance of the regulatory framework. Implementation of the Regulations avoids each individual charity developing its own approach and interpretation of UK which would give rise to an estimated cost of £ 3.4m. It is anticipated that the benefits achieved in terms of consistency and comparability in financial reporting will outweigh the potential costs of implementation.
- 14.3 Unquantifiable indirect benefits may also accrue to the charity sector though the creation of a reporting framework more clearly focused on reporting a charity's performance. The contribution such reporting makes to the efficiency and effectiveness of the sector is impossible to gauge. However, if the sector's effectiveness improved by only a tenth of one percent (0.1) of the income (£31.9 bn) of those charities affected this would result in benefits of £31.9 m.

15 Declaration

I have read the Regulatory Impact Assessment and I am satisfied that the benefits justify the costs.

Signed

Date

Fiona Mactaggart, Parliamentary Under Secretary for Race Equality, Community Policy, and Civil Renewal, Home Office

16 Contact point

- 16.1 Enquiries regarding the contents of this consultation document should be made to:

Helen Morgan
Charities Unit
Home Office
3rd Floor
Allington Towers
19 Allington Street
London SW1E 5EB

Tel: 020 7035 5355
Fax: 020 7035 5386
E-mail: helenc.morgan@homeoffice.gsi.gov.uk

or to:

Ray Jones
Charity Commission for England and Wales
Woodfield House
Tangier
Taunton
Somerset TA1 4BL

Tel: 01823 345 096
E-mail: ray.jones@charitycommission.gsi.gov.uk