



The Japan Association of Charitable Organizations

公益財団法人 公益法人協会 (JACO)

RESEARCH REPORT

Recent Developments in the UK Charity Sector

English edition

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The Japan Association of Charitable Organizations (JACO)

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Contents

Introduction	1
1. Background and Objectives of the Study	2
2. The Charity Sector in the UK	4
3. Requirements for Trading by Charities and the Legal Framework Governing Its Operation	6
3.1 Main Requirements for Trading by Charities.....	6
3.2 Changes to Activities and Flexibility.....	7
3.3 Main Requirements for Trading by Charities.....	7
3.4 Challenges and Prospects for Trading.....	8
4. The Importance and Management of Unrestricted Reserves in Charities	9
4.1 The Significance of Reserves and the Basic Approach.....	9
4.2 Legal Obligations and Conditions for Managing Reserves.....	9
4.3 Charity Commission Guidance on the Handling of Reserves.....	9
4.4 The Role of Reserves and Governance.....	10
4.5 The Flexibility of Reserves and Related Issues.....	10
4.6 Difficulties Charities Face in Managing Reserves.....	10
4.7 The Risks of Insufficient Reserves.....	11
4.8 Conclusion.....	11
5. The Approach to Regulating Charities	12
5.1 The Flexibility of Charity Regulation and the Significance of the Principle of Proportionality.....	12
5.2 An Overview of Regulation by the Charity Commission and Its Role.....	15
5.3 The Charity Commission's Regulatory Strategy and Its Effects.....	16
6. The Growth of Charities in the UK and Government Support	18
6.1 Three Pillars Supporting the Growth of the Charity Sector.....	18
6.2 Direct Government Intervention.....	19
6.3 Promoting Partnership.....	19
6.4 Small Charities and Large Charities.....	19
6.5 The Significance of Government Support and the Role of Charities as Social Infrastructure.....	20
7. The Regulator's Promotion of Public Disclosure and Its Impact	21
7.1 The Importance of Public Disclosure.....	21
7.2 Disclosure of CEO Remuneration and Board Data.....	21
7.3 The Impact of Public Disclosure and Its Contribution to the Charity Sector.....	21
7.4 The Charity Commission's Promotion of Public Disclosure and Its Effects.....	22
8. Issues Concerning the Charities Act 2022 and Future Plans	23
8.1 The Need to Review the Financial Thresholds.....	23
8.2 The Current State and Future of the Legal Framework.....	23
8.3 Plans for Future Legislative Reform.....	23
8.4 Issues Concerning the Charities Act 2022 and Future Prospects.....	24
9. The Current State of Dual Regulation of CLG Charities	25
9.1 Dual Regulation of CLG Charities at Present.....	25
9.2 The Current Regulation of Charitable Trusts.....	25
9.3 Measures for Small Organisations under Charity Law.....	26
9.4 Measures for Small Companies under the Companies Act 2006.....	26
10. The Current State of Charitable Trusts	27
10.1 Overview of Charitable Trusts.....	27
10.2 The Recommendation to Convert Charitable Trusts into CIOs.....	27
10.3 Why a CIO Cannot Be a Trustee.....	28
10.4 The Process of Converting to a CIO.....	28
10.5 The Current State of Charitable Trusts and the Challenges of Quantifying Them.....	29

10.6	The Benefits of Gift Aid for Charitable Trusts.....	30
10.7	The Outlook for Charitable Trusts.....	30
11.	The Role and Functions of the First-tier Tribunal (Charity)	31
11.1	Background to the Establishment of the First-tier Tribunal (Charity).....	31
11.2	Simplified Procedures and Support Arrangements.....	31
11.3	The Cost-Neutrality Principle and the Provision of a Fair Legal Environment.....	31
11.4	The Functions and Effectiveness of the Tribunal.....	31
11.5	The Future Outlook for the First-tier Tribunal (Charity).....	32
12.	Changes in the Charity Sector Brought About by the COVID-19 Pandemic and Inflation	33
12.1	Overview of the Impact of the Pandemic.....	33
12.2	Fundraising Challenges and the Adoption of Digital Technology.....	33
12.3	Changes in the Number of Charities.....	33
12.4	Future Prospects for the Charity Sector.....	34
13.	Recent Developments in Social Enterprise	35
13.1	The Growth and Characteristics of Social Enterprises in the UK.....	35
13.2	The Diversification of Legal Forms for Social Enterprises and the Spread of the CIC.....	35
13.3	The Growth of Community Interest Companies (CICs).....	35
13.4	Differences between CICs Limited by Guarantee and CICs Limited by Shares.....	36
13.5	Regulations and Restrictions on CICs.....	36
13.6	The Role of the CIC in the Development of Social Enterprise.....	37
13.7	The Need for Greater Transparency in Co-operatives.....	37
14.	The Activities of Infrastructure Organisations in the UK	38
14.1	Overview and History of NCVO.....	38
14.2	The Current Situation of Charities and the Challenges They Face.....	38
14.3	The Impact of the COVID-19 Pandemic and Inflation.....	39
14.4	Support Arrangements for Small Charities.....	39
14.5	Public Disclosure and Ensuring Transparency.....	40
14.6	Policy Advocacy as an Infrastructure Organisation.....	40
14.7	Adopting Digital Technology and Strengthening Internal Systems.....	40
14.8	The Importance of the Principle of Proportionality for Small Charities.....	40
14.9	Conclusion.....	40
15.	Implications for the Reform of Japan's Public Interest Corporation System	42
15.1	Regulatory Flexibility and the Effects of Public Disclosure.....	42
15.2	Consideration for Small Charities and the Principle of Proportionality.....	42
15.3	Use of Digital Technology and Government Support.....	43
15.4	Towards More Flexible Reserves Management to Support the Sustainability of Public Interest Corporations.....	43
15.5	Concluding Remarks.....	43
	References	45
	Appendix 1: Charity Procedures in England and Wales	46
1.	Procedures for charities.....	46
2.	Contents of the Charity Commission's register (The Register).....	48
3.	Application for charity registration.....	48
4.	Application for tax-exemption registration.....	56
5.	Annual return.....	61
6.	Contents of the trustees' annual report.....	65
7.	Applications for changes.....	66
	Appendix 2: CC19 Charity Reserves: Building Resilience	67

Introduction

This report, based on the findings of research conducted in London in June 2024, sets out the latest trends in the UK charity sector and how the sector is regulated in practice. Intended as reference material for the reform of the public interest corporation system, the study is based on information obtained by visiting leading charity-related bodies in the UK, such as the Charity Commission and the National Council for Voluntary Organisations (NCVO), and by conducting interviews on site.

First, with regard to the current state of the UK charity sector, we confirmed the remarkable growth of the community interest company (CIC), a form of social enterprise. The CIC, a business form with legal personality that pursues social benefit, has grown steadily since the scheme was created in 2005, and the number registered had reached 28,878 as of March 2023. Although CICs have a social mission, their managers and directors are able to receive salaries, and this operational flexibility makes the CIC an attractive option for many social entrepreneurs.

Next, with regard to trading by charities, it is emphasised that charities can carry out trading that is consistent with their charitable purposes and use the resulting income free of tax. In particular, trading that is properly managed while complying with the obligation to report to the Charity Commission is an important element underpinning the sustainability of charitable activities.

Furthermore, with regard to holding unrestricted reserves, the importance of charities holding reserves to prepare for anticipated risks and to ensure financial stability is pointed out. Although there were cases in which many charities used up their reserves as a result of the COVID-19 pandemic and inflation, formulating an appropriate reserves policy and ensuring transparency enable charities to sustain their activities.

As for regulation by the Charity Commission, it is noteworthy that, despite limited resources, public disclosure and monitoring by the general public function effectively, so that misconduct is deterred without the need for strict regulation. In particular, the regulatory approach based on the principle of proportionality plays an important role in reducing the burden on small charities, thereby helping them to continue their activities. We also confirmed that public disclosure and monitoring by society play an important role in ensuring overall transparency and accountability, and that misconduct is in practice deterred without strict regulation; we understood that this contributes to the advancement of public benefit by civil society. In addition, we confirmed that, despite the economic impact of the COVID-19 pandemic and inflation, the charity sector is recovering through the use of digital technology and with government support.

Acknowledgements

This research project was carried out with a grant from the Uehiro Foundation on Ethics and Education. We are sincerely grateful to the Foundation for its support in carrying out the project. The grant enabled us to undertake a detailed study and analysis of the UK charity sector.

November 2024

The Japan Association of Charitable Organizations
Yoshiharu Shiraishi, Senior Researcher, Department of Research

1. Background and Objectives of the Study

The history of charitable activity in the UK can be traced back to the Poor Relief Act of 1558, and its legal basis was clarified by the Charities Act of 1601. Following these legislative developments, the Charity Commission for England and Wales was established in 1908 and became the central body responsible for enhancing the transparency and credibility of charitable activities.

To this day, charitable activity has remained firmly rooted in society as an integral part of British culture and plays an indispensable role in solving social problems. In recent years, moreover, its activities have become markedly more diverse, spanning a wide range of fields from support within particular local communities to international aid. With this broad expansion of activity, the legal and institutional environment surrounding charities has become increasingly complex, and ensuring appropriate governance and maintaining transparency in response to this are recognised as important challenges for the future.

This report brings together the findings of research carried out in London from 17 to 22 June 2024. The purpose of the study was to deepen our understanding of the latest trends in the UK charity sector and its regulation, and to gather information that would contribute to the ongoing reform of the public interest corporation system. Specifically, we visited and interviewed the following people.

Research schedule

Time	Organisation and location	Interviewee(s)
Tuesday 18 June 2024		
13:00–14:30	Social Enterprise UK 15 Dock St, London, UK	Dan Gregory (Associate Director)
15:00–17:00	Office for Civil Society, Department for Culture, Media and Sport (DCMS) Parliament Street, Whitehall, City of Westminster, London, UK	Ben Harrison (Head of Charity Law and Regulation)
Wednesday 19 June 2024		
10:30–12:00	University of London (School of Oriental and African Studies) University of London, 10 Thornhaugh Street, Russell Square, London, UK	Jan Toporowski (Professor of Economics and Finance, Board member of London Medical Orchestra)
13:30–14:30	Charity Commission, London office 102 Petty France, London, UK	Tim Hopkins (Assistant Director of Investigations and Inquiries) Kate Goodchild (EA to Helen Stephenson)
16:00–17:30	Mishcon de Reya LLP¹ Africa House, 70 Kingsway, London, UK	Aarti Thakor (lawyer, former Director of Legal and Accounting services of the Charity Commission) ² Chris Willis Pickup (lawyer, former Senior Lawyer of the Charity Commission)
Thursday 20 June 2024		

¹ A major international law firm based in London, with offices in Singapore, Hong Kong and elsewhere. Founded in 1937, Mishcon de Reya provides legal services and is particularly highly regarded in fields such as corporate law, litigation, intellectual property, employment law, family law and real estate.

² Director of Legal and Accounting Services at the Charity Commission until June 2024. Having joined the Commission's legal department in 2008, Aarti Thakor was Head of Legal Compliance until April 2018, providing legal advice in that role on the most complex, highest-risk investigations and other high-risk matters.

Time	Organisation and location	Interviewee(s)
10:30–12:00	National Council for Voluntary Organisations (NCVO) ³ Regents Wharf, 8 All Saints St, London	Sarah Elliott (CEO) ⁴
13:00–14:30	National Council for Voluntary Organisations (NCVO) Regents Wharf, 8 All Saints St, London	Lee Robinson (Insights Lead)
15:00–16:30	Charity Commission, Liverpool head office (online) Online	Holly Riley (Head of Strategic Policy) ⁵ Kim Andrews (Senior Accountants) ⁶
17:30–18:30	Mishcon de Reya LLP Africa House, 70 Kingsway, London, UK	Aarti Thakor (lawyer, former Director of Legal and Accounting services of the Charity Commission)



Office for Civil Society, Department for Culture, Media and Sport (18 June 2024)

³ With some 18,000 member organisations, the NCVO is the largest membership body in the UK voluntary sector and supports charities and voluntary organisations. Founded in 1920, it promotes volunteering, carries out research, engages in policy advocacy and provides training and resources.

⁴ Sarah Elliott (née Vibert) is Chief Executive of the National Council for Voluntary Organisations (NCVO). She joined NCVO in January 2020 as Director of Membership and Engagement and became Chief Executive in March 2022. She previously held senior positions at organisations including The Neurological Alliance and Epilepsy Society.

⁵ Head of Strategic Policy at the Charity Commission, responsible for developing and implementing strategic policy, and committed to strengthening the policy framework for charities.

⁶ Senior Accountant at the Charity Commission, responsible for the financial audit and regulatory compliance of charities, and committed to improving the quality of charities' financial reporting.

2. The Charity Sector in the UK

In the UK, the legal environment for charitable organisations provides a framework under which a variety of bodies can be adapted for charitable purposes by obtaining recognition from the Charity Commission: the company limited by guarantee (CLG),⁷ formed under the Companies Act;⁸ the unincorporated association, which has no legal personality; and the trust,⁹ under which property is held and administered for specific purposes (Ishimura, 2015). In addition to these forms, 2011 saw the introduction of a new type of legal entity, the charitable incorporated organisation (CIO), which, unlike the conventional approach of adapting for-profit corporations and other existing forms, is a legal form for charities in its own right.

The CIO has been designed specifically as a legal form for charitable activities and has many advantages, such as removing the dual regulation that arises under company law and the fact that individual members bear no legal liability. For this reason, the CIO has become very popular among charities: as of 5 August 2024, of the 170,367 charities¹⁰ registered with the Charity Commission, 36,955 were registered as CIOs. This suggests that the CIO is becoming a major legal form among charities in the UK.

However, charities with an annual income of less than £5,000 are not required to register with the Charity Commission, so these small charities are not included in the official statistics. The actual total number of charities is therefore estimated to be higher than the officially reported figure. The number of charities by income band as of February 2024 is shown in Table 1: charities with an annual income of less than £5,000 account for 34% of the total. If unregistered small charities are also taken into account, however, this proportion is expected to be even higher in reality.

Table 1: Number of charities in England and Wales by income band

Income band	Number of charities	Share (%)
Under £5,000	57,599	33.9
£5,000–£10,000	16,975	10.0
£10,000–£25,000	26,161	15.4
£25,000–£250,000	47,516	28.0
£250,000–£500,000	8,111	4.8
£500,000–£1 million	5,088	3.0
£1 million and over	8,416	4.9
Total	169,866	100.0

Source: Charity Commission, Charity by income band (7 February 2024).

For reference, Tables 2 and 3 show the numbers of 501(c)(3) organisations in the US and of public interest corporations in Japan by income band. These tables show that, among Japanese public interest corporations, medium-sized corporations account for the largest share and the proportion of small corporations is low compared with the other countries. This suggests that small corporations may face some kind of hurdle in obtaining public interest authorisation, and institutional constraints and operational challenges are thought to be contributing factors.

⁷ The company limited by guarantee is used particularly by non-profit organisations and charities. Its members are liable to pay the amount of their guarantee if the company is wound up, but the company's profits are not distributed to them.

⁸ Companies Act 2006: <https://www.legislation.gov.uk/ukpga/2006/46/contents>

⁹ Trusts (Capital and Income) Act 2013: <https://www.legislation.gov.uk/ukpga/2013/1>

¹⁰ Charity Commission for England and Wales (website), Search the charity register, <https://www.gov.uk/find-charity-information> (last accessed 5 August 2024).

Table 2: Overview of 501(c)(3) organisations in the US

Form 990	Number of organisations	Share (%)
Form 990-N Gross receipts under \$50,000	1,061,513	72.3
Form 990-EZ Gross receipts under \$200,000 and total assets under \$500,000	85,715	5.8
Form 990 Gross receipts of \$200,000 or more and total assets of \$500,000 or more	218,516	14.9
Form 990-PF	103,299	7.0
Total	1,469,043	100.0

Source: compiled from IRS, Nonprofit Charitable and Other Tax-Exempt Organizations, Tax Year 2019 (<https://www.irs.gov/pub/irs-pdf/p5331.pdf>).

Table 3: Number of public interest corporations in Japan by income band

Income band	Number of corporations	Share (%)
Under ¥10 million	1,649	17.2
¥10 million–¥50 million	2,729	28.4
¥50 million–¥500 million	3,780	39.4
¥500 million–¥10 billion	1,379	14.4
¥10 billion and over	68	0.7
Total	9,605	100.0

Source: compiled from Overview of Public Interest Corporations and Activity Report of the Public Interest Corporation Commission (FY2021).

- The total number of public interest corporations is 9,673; the total in the table differs because 68 corporations did not respond.

All charities, including CIOs, are required to apply to HM Revenue & Customs (HMRC) for tax exemption at the same time as they apply to register with the Charity Commission. The Charity Commission and HMRC work together, and a system is in place whereby, normally, once registration with the Charity Commission has been granted, the application for tax exemption is also approved automatically. Under this system, all charities can enjoy a range of tax advantages, such as exemption from income tax and corporation tax, tax relief on donations (Gift Aid), reduced inheritance tax and tax relief on gifts of assets.

Meanwhile, a legal form known as Regulator of Community Interest Companies (CIC)¹¹ is also attracting attention in the UK charity sector. CICs are set up as social enterprises that are required to reinvest their profits for the public good, and they operate under the supervision of the Office of the Regulator of Community Interest Companies. CICs are characterised by flexible governance, the retention of direct managerial control by their founders and a cap on dividends, which make them a particularly attractive option for social entrepreneurs. The number of CICs has continued to grow since the form was created and currently stands at 28,878 (Regulator of Community Interest Companies, 2023).

As outlined above, the UK charity system is designed to support charitable activities carried out through a diverse range of organisational forms, and the introduction of the CIO and the CIC in particular can be regarded as an important institutional development, providing appropriate legal forms for charities and social enterprises. These institutional frameworks enable charities and social enterprises to operate more flexibly and sustainably in fulfilling their social missions, and they remain a matter that deserves continued attention in the future operation of the system.

¹¹ Companies House Service (website), <https://find-and-update.company-information.service.gov.uk/> (last accessed 5 August 2024).

3. Requirements for Trading¹² by Charities and the Legal Framework Governing Its Operation

In the UK, charities are permitted to carry out commercial activities, such as holding various events and selling particular goods and services, as a means of raising funds to achieve their charitable purposes. Because the income derived from these commercial activities is exempt from the tax normally levied on business income (the so-called tax exemption for primary-purpose trading), the profits obtained can be reinvested in achieving the charity's purposes, which makes such activities an important element in providing a sustainable basis for charities' work.

3.1 Main Requirements for Trading by Charities

When carrying out trading, a charity is required to meet the following three main requirements.

3.1.1 Consistency with the Charity's Purposes

Trading carried out by a charity must be consistent with the purposes for which the charity was established and must further the achievement of those purposes. For example, where a charity whose purpose is to support homeless people provides homelessness support services under a contract from the government, this is regarded as fully consistent with the charity's purposes and can lawfully be carried out. Similarly, a business that produces recycled paper, making a social contribution by providing employment opportunities, and sells that paper is also permissible as long as it is in line with the charity's purposes. Accordingly, as long as it is consistent with the charity's purposes, trading may be carried out freely and its profits are exempt from tax.

On the other hand, where a charity carries out trading that is not consistent with its purposes, it is required to set up a trading subsidiary (such as a for-profit company or a social enterprise) and to reinvest the profits generated there in line with the charity's purposes.

3.1.2 Compliance with Tax Law and Other Laws and Regulations

When carrying out trading, a charity must comply not only with charity law and tax law but also with other relevant legislation, such as the Companies Act 2006 in the case of a company limited by guarantee (CLG) and the Trustee Act 2000 in the case of a charitable trust. If the trading is not consistent with the charity's purposes, its income may be taxable, so it is essential to confirm its legal compliance.

3.1.3 Obligation to Report in the Trustees' Annual Report

All charities are required to include information on their trading in their trustees' annual report, and charities with an annual income of £25,000 or more are required to submit that report to the Charity Commission. This reporting makes it possible to verify whether a charity's activities are in line with its purposes, thereby ensuring transparency and accountability. Particular importance is attached to whether income is being properly reinvested in charitable purposes, and the procedure can be described as indispensable for maintaining the trust of supporters and the regulator.

¹² Charities may carry out trading free of tax provided that it is consistent with their charitable purposes. Regular reporting is required once the activity has been carried out, but the regulator rarely raises issues, so charities are relatively free to develop trading activities.

3.2 Changes to Activities and Flexibility

As long as trading is consistent with the charity's purposes, no prior approval is needed to change or add activities; only reporting after the event in the annual report is required. This flexibility differs greatly from the Japanese system, under which authorisation is granted on an activity-by-activity basis: in the UK, recognition is based on the charity's purposes, so as long as those purposes do not change, new activities can easily be started and existing ones changed.

Furthermore, the various activities carried out by charities are not confined to a role complementary to government or for-profit businesses; charities can develop them freely as long as they are consistent with their purposes. Even where such activities compete with those of other sectors, there is no law restricting this, nor is it raised as an issue.

For example, where a charity earns income through activities based on its purposes, competing with for-profit businesses is not in itself a problem. This rests on an institutional balance: charities are subject to specific regulation (regulation that does not apply to for-profit businesses) while enjoying generous tax advantages. Underlying this relationship is the view that there is no need to bring considerations of fairness in relation to for-profit businesses into the registration or activities of charities.

Moreover, from the standpoint of seeking to extend public benefit and social services more widely, a restriction preventing a charity from providing a service on the grounds that for-profit businesses already provide it could hinder the spread of public benefit and social services. It has been pointed out that imposing such a restriction would run counter to the principle of extending public benefit and social services nationwide.

On the basis of these ideas, charities in the UK are permitted to operate actively in the marketplace as well. This arrangement enables charities to deliver social value in accordance with their purposes while carrying out their activities in a sustainable way.

3.3 Main Requirements for Trading by Charities

When a charity carries out trading, all of its activities are recorded in its annual report; if it comes to light that an activity is not consistent with the charity's purposes, the Charity Commission conducts an investigation on the basis of the following criteria:

- Whether the breach was deliberate, reckless or simply the result of ignorance
- The extent and frequency of the breach
- The scale of the impact of the breach on the charity and on the sector as a whole

Taking these factors into account, the Charity Commission can take the following action:

- Minor breaches: issue regulatory advice or an official warning.
- Moderate breaches: direct the charity to draw up an action plan and, where necessary, require it to recover funds spent as a result of the trustees' breach.
- Serious breaches: order the removal and disqualification of trustees and, in some cases, consider dissolving the charity. Funds may also be recovered directly from individual trustees through the courts.

The Charity Commission considers dissolving a charity only where the breach is extremely serious and widespread, involves malicious intent and has so severely undermined public trust that the charity cannot be restored to a proper state. Specific legal requirements must be met before this measure can be taken. There have been no cases in the past in which these conditions were met, and cases in which the measure has been applied to problems other than charitable activities have also been extremely limited. It should be borne in mind, however, that dissolution is merely one of the legal options available.

In addition, the Charity Commission works with HM Revenue & Customs (HMRC) on matters of tax treatment, but the final decision on whether an activity is taxable as a non-charitable activity rests with HMRC. Accordingly, although the Charity Commission consults the tax authority repeatedly in the course of that decision-making, it has no direct power to decide whether tax is payable.

3.4 Challenges and Prospects for Trading

For charities that carry out trading, it is essential to maintain a sustainable financial base while ensuring, as a prerequisite, compliance with the law and transparency. They are expected to pursue their social mission by regularly assessing whether their trading is consistent with their charitable purposes and by reviewing and improving their activities in the light of the results. Holding appropriate reserves also plays an important role in ensuring financial stability and in providing for future risks. Through such governance and financial management, charities can continue to make a sustained contribution to society.

Based on interviews with Dan Gregory, Holly Riley and Kim Andrews.

4. The Importance and Management of Unrestricted Reserves in Charities

4.1 The Significance of Reserves and the Basic Approach

Charities in the UK are permitted to hold reserves (unrestricted reserves) to support the achievement of their charitable purposes. Reserves are defined as funds that a charity is free to use without being restricted to any particular project or activity, and they are a financial tool whose principal functions are to mitigate financial risk and to enable the organisation to carry out its long-term plans (Charity Commission, 2015). Because holding reserves forms a foundation for the sustainable operation of a charity and also serves as a safeguard against unexpected expenditure or a fall in income, their proper management and planned use are regarded as essential.

The policies for managing and using charity reserves are set out in detail in guidance issued by the Charity Commission (CC19; see Appendix 2), on the basis of which each charity is expected to decide for itself what its reserves are to be used for, what level of reserves it is appropriate to hold and for how long. The guidance points out that holding excessive reserves may leave a charity unable to account properly to its donors and supporters, while insufficient reserves risk jeopardising its sustainability; it therefore recommends that each charity draw up a balanced reserves policy that takes account of its purposes, the scale of its activities and its financial position.

Reserves are thus an important financial strategy for securing a charity's financial stability and organisational flexibility, and are regarded as an indispensable element in enabling a charity to achieve its charitable purposes over the long term while adapting to changes in its external environment. The proper management and planned use of reserves can therefore be said to be vital, as part of a charity's effective governance, to sustaining its charitable activities.

4.2 Legal Obligations and Conditions for Managing Reserves

When holding reserves, a charity must follow the regulator's guidance and comply with certain obligations and conditions. First, there must be a reasonable justification for holding reserves that relates to the charity's purposes and activities, and the board of trustees must set out this justification clearly. In addition, charities are required to draw up a reserves policy and to ensure transparency in their trustees' annual report and financial statements. The guidance states that a reserves policy should mainly cover the target level of reserves, the conditions under which they may be used and a timetable for regular review.

Drawing up and publishing a reserves policy is essential to maintaining the confidence of supporters and the regulator, as it enables a charity to demonstrate that its reserves are being properly managed and are reliably contributing to the achievement of its charitable purposes.

4.3 Charity Commission Guidance on the Handling of Reserves

The Charity Commission provides specific guidance on the handling of reserves (CC19), which requires each charity to spend the funds it receives on its charitable activities within a reasonable period. The guidance does not lay down any specific standards for the amount of reserves to be held or the length of time for which they may be held. This is because charities are so diverse in character and activities that a uniform standard would not suit the circumstances of each one. The amount of reserves and the period for which they are held are

therefore for the board of trustees to decide, and the Charity Commission does not give instructions to individual charities.

For example, it is considered reasonable for a charity that maintains offices or facilities to hold larger reserves to cover payments of rent and utility bills. A grant-making foundation that receives investment income, on the other hand, often has no need for reserves to cover its ordinary running costs. The appropriate level of reserves should thus be set individually, according to each charity's circumstances and financial risks.

4.4 The Role of Reserves and Governance

Holding reserves is an important element of a charity's risk management and governance, and an appropriate level must be set. Particularly in the event of sudden economic shocks or unprecedented events such as a pandemic, reserves act as a safety net that maintains a charity's financial stability. For this reason, the Charity Commission recommends that charities hold around six months' operating costs, or more, as reserves. This enables a charity to respond in an orderly way even if it faces situations such as having to make staff redundant, adjust its operations or even wind up the organisation.

COVID-19 led many charities to draw down their reserves and face financial difficulties, but reserve levels are now recovering. However, high inflation and the difficulty of raising funds mean that many organisations continue to find themselves in a difficult position. For its part, the Charity Commission encourages each organisation to draw up a reserves policy and to hold appropriate reserves so that it can continue its charitable activities in times of need.

4.5 The Flexibility of Reserves and Related Issues

Charity law is designed to allow each organisation to manage its reserves flexibly, and reserves may also be held for specific projects or purposes. For example, charities are permitted to draw up long-term reserves plans for specific purposes such as 'purchasing new offices' or 'raising funds to expand services'.

The problem, however, lies in cases where a charity accumulates excessive funds and does not use them for its charitable purposes. In such cases, the Charity Commission may investigate the charity's reserves and deal with it on an individual basis, but such action is very rare.

Reserves are an important asset that protects a charity against economic crises and changes in its external environment. Having reserves means that, even in situations such as the loss of a contract or the drying up of a source of income, a charity can adjust the scale of its activities appropriately and gain breathing space to raise funds. Holding reserves is therefore an important means of responding to a crisis in a planned and effective way, and a foundation for protecting charities and the public-benefit services they provide.

4.6 Difficulties Charities Face in Managing Reserves

Not every charity is able to hold an ideal level of reserves. In particular, for charities that have few donors and find it difficult to raise funds, setting aside six months' operating costs or more as reserves is not easy. Building up reserves takes time, and in the meantime it may be difficult to be adequately prepared for the financial risks that arise. In such organisations, it is important for the board of trustees to manage the level of reserves and the policy on their use appropriately and to review them regularly.

4.7 The Risks of Insufficient Reserves

Where reserves are insufficient, a charity loses the capacity to cope with unexpected expenditure or economic shocks and, as a result, risks being unable to achieve its charitable purposes. This can be fatal for a charity, and holding an appropriate level of reserves is an essential element in protecting social services and making charitable activity sustainable. Holding reserves can therefore be described as an important strategic means of ensuring a charity's long-term survival and the fulfilment of its mission.

4.8 Conclusion

Reserves management in UK charities is an important means of securing the financial foundation for achieving their charitable purposes. Reserves must be managed flexibly while maintaining transparency and governance, and the board of trustees needs to take ownership of their use. Furthermore, managing reserves appropriately in line with each organisation's characteristics, with reference to the Charity Commission's guidance (CC19), can be said to contribute to the sustainable delivery of charitable activities.

Based on interviews with Ben Harrison, Holly Riley and Kim Andrews.

5. The Approach to Regulating Charities

5.1 The Flexibility of Charity Regulation and the Significance of the Principle of Proportionality

The UK government places great importance on the independence of charities and has a deep understanding of the benefits that a diverse range of charities bring to society and of their significance. Each charity has its own mission and purposes and, through its activities, contributes to society in a variety of ways; it is therefore essential to respect the independence of these organisations so that they can carry out their activities autonomously and effectively. Accordingly, the UK government's basic policy is to implement appropriate and balanced regulation that preserves the independence of charities while enabling them to fulfil their social responsibilities.

In particular, there is a widely shared recognition that applying excessively strict regulation to small charities could constrain their activities and, in turn, reduce the benefit they bring to society. In view of this, the UK government can be said to have created an environment in which small charities can work fully towards achieving their intended purposes, by easing the regulation that applies to them and adopting a flexible regulatory approach. In other words, by keeping regulation light, it seeks to reduce the regulatory burden while encouraging charities to continue to fulfil their social role.

This policy is intended to reconcile the independence of charities with their contribution to society and, at the same time, to build an effective regulatory system that maximises the benefit to society as a whole. UK charity regulation therefore aims, by responding flexibly to the size and activities of each organisation, both to support each charity in fulfilling its social mission and to safeguard its independence.

5.1.1 Light-Touch Regulation and Tax Reliefs

UK charity regulation is relatively light in order to enable charities to operate flexibly and sustainably in society, and there are almost no organisations that take advantage of the tax reliefs while resenting the regulation as overly strict. This regulatory environment is one of the factors that make it easier to run small charities and that create the conditions for charities to contribute to their local communities over the long term.

Specifically, charities can enjoy a wide range of tax benefits, such as exemption from income tax and corporation tax and tax relief on donations (Gift Aid), while carrying on their activities without being bound by excessive regulation. As regards tax relief on donations in particular, where the donor is a taxpayer the charity can receive from the government an amount equivalent to tax at the basic rate (25%) on the donation, and all charities registered with the Charity Commission, as well as charitable incorporated organisations (CIOs) and others, can make use of this. This design of the system strengthens the financial base on which charities fulfil their social missions and, at the same time, is an important element in sustaining their contribution to local communities.

5.1.2 The Introduction of the Principle of Proportionality

The principle of proportionality lies at the heart of charity regulation in the UK, and measures to reduce the burden of regulatory compliance, particularly for small charities, play an important role. A distinctive feature of the regulatory framework based on this principle is that care is taken to ensure that charities are not subjected to an excessive burden where the cost of compliance is disproportionate to their size. One example of such burden-reducing measures is that small charities other than charitable incorporated organisations (CIOs) may be exempted from the obligation to submit an annual return or a report on their activities.

For example, if the cost of complying with regulation is assumed to be £10, then for a small charity with an annual income of £15 this would amount to about two-thirds of its total income, substantially reducing the funds that ought to be devoted to its charitable purposes. For a charity with an annual income of £1,000, on the other hand, the same compliance cost would be only a tiny fraction of its total income and would have little effect on its charitable activities. As this makes clear, the burden of regulatory compliance should be designed to be proportionate to the size of a charity, and the UK regulatory system has therefore adopted a flexible regulatory approach tailored to the size and characteristics of each organisation.

This approach aims to reduce the excessive burden that the uniform application of regulation would place on small organisations, and to ensure that charities can operate sustainably as they fulfil the social missions for which they exist. Through the practice of the principle of proportionality, the UK charity system can be said to have created an environment in which a wide range of organisations, including small charities, can pursue activities towards their purposes on a stable footing.

5.1.3 The Regulatory Framework for Charities and Reporting Obligations by Size

As noted above, the regulation of charities is based on the principle of proportionality, with different requirements imposed according to the size and legal form of the organisation. A charity established as an unincorporated association is required, on its establishment, to apply online for registration with the Charity Commission and to register with HM Revenue & Customs (HMRC) for tax exemption (Table 4). For charities with a gross annual income of under £5,000, however, online registration is optional and not a legal requirement.

As regards periodic reporting obligations, all charities, regardless of size, must update their basic organisation details online (Table 5). Organisations with a gross annual income of under £10,000 are exempt from the obligation to submit an annual return, and the system is designed so that the level of detail required in reporting increases as income grows. As for the obligation to prepare a trustees' annual report, charities with a gross annual income of under £250,000 are required to produce a report in a simplified format, while those above this level must prepare a more detailed report. Furthermore, the obligation to submit the trustees' annual report applies to charities with a gross annual income of £25,000 or more, and these charities are required to undergo external scrutiny. In particular, where annual income exceeds £1 million, an audit must be carried out.

Accounting standards, too, differ according to an organisation's gross annual income. Charities with a gross annual income of £250,000 or more are required to adopt the accruals basis of accounting and to comply with the Charities SORP (Statement of Recommended Practice – Accounting and Reporting by Charities). A SORP is guidance that sets out the accounting standards applicable to a specific sector or industry, such as charities or real estate. Charities with a gross annual income of under £250,000, on the other hand, may choose either accruals accounting or receipts and payments accounting. For details of the principle of proportionality and of the requirements for registration and periodic reporting, please refer to Appendix 2.

The regulatory framework for charities is thus designed in multiple tiers according to the size and income of the organisation, and is characterised by differences in the accounting standards and reporting obligations that apply. This creates a system that ensures the transparency and reliability of organisations without placing an excessive burden on small charities. Furthermore, by establishing appropriate reporting arrangements, it can be said to aim to clarify what charities actually do and to enhance public trust in them. Looking ahead, the further development of regulation will call for the introduction of a flexible framework that takes account of the growing diversity in the size of organisations and the advance of digitalisation. It is hoped that this will create an effective supportive environment in which more charities can deliver social value and contribute to the public benefit.

Table 4: Registration procedures for charities

Gross annual income (£)	Online application for registration	Registration for tax exemption (HMRC)
Under £5,000	Optional	○
£5,000–£10,000	○	○
£10,000–£25,000	○	○
£25,000–£250,000	○	○
£250,000–£1 million	○	○
£1 million and over	○	○

Table 5: Periodic reporting requirements for charities

Gross annual income (£)	Updating organisation details			Annual return ¹			Preparation of trustees' annual report		Trustees' annual report (incl. accounts)			Accounting standard ⁵
	CC	HMRC	CH ²	A, B	C	D	Small	Large	Submit	Scrutiny ³	Audit ⁴	
Under 10,000	○	○	–	–	–	–	○	–	–	–	–	Choice
10,000–25,000	○	○	–	○	–	–	○	–	–	–	–	Choice
25,000–250,000	○	○	–	○	○	–	○	–	○	○	–	Choice ⁶
250,000–500,000	○	○	–	○	○	–	○	–	○	○	–	SORP
500,000–1 million	○	○	–	○	○	○	–	○	○	○	–	SORP
1 million and over	○	○	–	○	○	○	–	○	○	–	○	SORP

1 An annual return consists of Parts A–D; charities with an annual income of £10,000 or less are not required to submit one. Charities with an income of under £25,000 need complete only Part A (basic information such as annual income and expenditure), while those with an income of £500,000 or more must complete every item up to and including Part D.

2 Charities constituted as companies limited by guarantee (CLGs) must register updates to their organisation details with Companies House (CH), regardless of their annual income.

3 'Scrutiny' = external scrutiny required.

4 An audit is also required where annual income is £250,000 or more and total assets amount to £3.26 million or more.

5 'Choice' under accounting standard means that either receipts and payments accounting or the Charities SORP (Statement of Recommended Practice – Accounting and Reporting by Charities) may be chosen.

6 Charities constituted as companies limited by guarantee (CLGs) with a gross annual income of £25,000–£250,000 must follow the Charities SORP.

5.1.4 Regulatory Flexibility and Its Social Impact

In UK charity regulation, the introduction of the principle of proportionality has secured flexibility in the running of small charities. The main aim of applying this principle is to reduce the regulatory burden on small charities so that they can smoothly carry out activities in line with the purposes for which they were established. In particular, because excessively strict regulation could make it difficult for small organisations to operate sustainably and could, in turn, hinder their contribution to local communities, a flexible and realistic regulatory approach plays an important role.

Building a regulatory environment based on the principle of proportionality strikes the optimal balance for both the regulator and the organisations, in order to help each charity achieve its charitable purposes autonomously and efficiently. A regulatory framework with this kind of flexibility enables small charities to make a continuing contribution to their local communities and to help improve the well-being of society as a whole. The application of the principle of proportionality can therefore be regarded as an important measure that helps to invigorate the charity sector as a whole and to maximise its social impact.

5.1.5 The UK Government's Regulatory Approach and Its Significance

In order to promote charitable activity and support the creation of social value, the UK government has adopted a light-touch and flexible regulatory approach, at the centre of which lies the principle of proportionality. The aim of this approach is to provide an environment in which charities can pursue their missions and continue to tackle social issues. Flexible regulation also leaves room for charities to grow and develop, supporting the sustainable operation of each organisation while seeking to maintain the necessary governance and transparency.

This regulatory approach stimulates charitable activity and, while keeping the regulatory burden to a minimum, underpins the realisation of public benefit across society as a whole. In particular, flexible regulatory measures allow charities to decide their own operational policies and to expand their activities, and are thus a factor in promoting the diversification and vitality of the social sector. As a result, the UK charity sector is run flexibly and efficiently, and a wide variety of charitable activities are carried out for the benefit of local communities and the international community. This regulatory framework plays an important role as part of the UK government's support for charitable activity, and can be said to provide a foundation that enables charities to make a sustainable contribution to society while maintaining their independence.

5.2 An Overview of Regulation by the Charity Commission and Its Role

The Charity Commission is the principal regulatory body responsible for supervising the charity sector in the UK and ensuring that it is properly run. Its main roles are to register charities, to manage annual reporting and to maintain the transparency and governance of charitable activity, with the aim of securing public trust in charities.

5.2.1 Registration and Annual Reporting Obligations

Registration with the Charity Commission is required in order to operate as a charity in the UK, and organisations with an annual income of more than £5,000 in particular are under an obligation to register. Different requirements for annual reporting are also set according to the size of the charity. Specifically, small charities are exempt from the requirements for external scrutiny and audit, whereas charities with an annual income of more than £25,000 must undergo external scrutiny, and large charities with an income of more than £1 million are required to have a full audit. These regulatory settings aim to maintain proper governance while reducing the burden in proportion to the size of the charity.

In addition, small charities may adopt receipts and payments accounting, whereas large charities are required to adopt accruals accounting in line with the Charities SORP (Statement of Recommended Practice). Accounting, too, is thus handled flexibly according to the size and income of the charity, with care taken to avoid imposing an excessive regulatory burden.

5.2.2 Consideration for Small Charities and the Principle of Proportionality

The principle of proportionality has been incorporated into the Charity Commission's regulatory policy, so that regulation is applied flexibly according to the size and activities of each charity. Specifically, while large charities are required to provide detailed information, care is taken to ensure that small charities need provide only the minimum, and they are often exempted from reporting obligations and external audit. This flexible regulatory approach prevents excessive administrative burdens from hindering the activities of small charities, and forms a foundation for the healthy development of the charity sector as a whole.

For example, although a CIO (charitable incorporated organisation) is required to submit a trustees' annual report and accounts regardless of its size, the principle of proportionality means that flexible standards, matched to the size of the CIO, are applied to the content and format of its reporting. Through this approach,

the Charity Commission's regulation aims to ensure proper governance without hindering the promotion of charitable activity.

5.2.3 Implementing Regulation and Responding to Incidents

The Charity Commission does not scrutinise the annual reports of every charity, and as a rule it does not carry out on-site inspections. Where a serious incident occurs or misconduct by a charity is suspected, however, the Commission conducts a rigorous investigation and may, where necessary, hold meetings with the trustees. In this way it maintains the credibility and transparency of charities while being able to respond promptly when conduct that undermines public trust occurs.

5.2.4 The Role of the Charity Commission and Its Impact on Society

By supervising the proper conduct of charitable activities, the Charity Commission plays an important role in maintaining transparency and efficiency and in contributing to the achievement of public-benefit purposes across society as a whole. Thanks to a flexible regulatory approach and the introduction of the principle of proportionality, the UK charity sector has developed in diverse forms and carries out a wide range of charitable activities for local communities and the international community.

This regulatory framework seeks to balance the rigour of regulation against the administrative burden on charities, with the aim of supporting the healthy growth of the charity sector as a whole. As a result, the Charity Commission provides a foundation for maximising social value while maintaining the independence of charities, and can be said to play an extremely important role as an institutional foundation underpinning public-benefit activity in the UK.

5.3 The Charity Commission's Regulatory Strategy and Its Effects

The Charity Commission is tasked with supervising some 170,000 charities in England and Wales with limited resources, and this work is carried out by a staff of around 450. With staffing on this scale, it would be realistically impossible to carry out comprehensive oversight of the kind practised in Japan, such as regular on-site inspections and checking every document submitted, and the Charity Commission has therefore adopted its own regulatory strategy. Rather than relying on strict direct inspection, this strategy focuses on an approach founded on public disclosure and public scrutiny.

5.3.1 The Effects of Public Disclosure and Public Scrutiny

In UK charity regulation, public disclosure plays an extremely important role in deterring misconduct and promoting proper management. Because each charity's financial position and activities are made public through the Charity Commission's website, the general public and supporters can access this information and monitor each organisation's activities. This mechanism of public scrutiny based on disclosure thus works effectively to ensure the transparency of charities and to maintain trust in them.

The Charity Commission has also set up a 'Contact Centre', providing a means by which members of the public and people involved with charities can report concerns about charities. Under this system, information from whistleblowers is properly assessed and, where necessary, prompt action is taken, enabling problems to be detected and dealt with at an early stage. Unlike a strict supervisory regime such as Japan's, which involves regular on-site inspections, these mechanisms can be described as a strategic approach to safeguarding the soundness of charitable activity while making effective use of limited resources.

5.3.2 Large Charities and Risk Management

The Charity Commission attaches importance to communicating proactively with, in particular, large high-risk charities that handle substantial sums of money and charities operating in conflict zones, so as to gain a detailed understanding of their activities. For such organisations, it has arrangements in place to hold meetings with trustees where necessary, in order to strengthen their risk management and to address potential problems before they arise. These measures are not, however, premised on regular inspection visits; rather, they are based on a regulatory policy that emphasises the deterrent effect of public disclosure and public scrutiny.

This approach enables the Charity Commission to supervise high-risk charities effectively while making efficient use of its limited resources. More specifically, the main aim is to share information on risk management, and thereby prevent problems before they occur, through detailed scrutiny of large charities' annual reports and regular dialogue with their boards of trustees.

5.3.3 Outcomes of the Regulatory Strategy

One outcome of the Charity Commission's regulatory strategy is that the number of major cases of misconduct in the UK is relatively small. This shows that public disclosure and public scrutiny interact to work effectively in ensuring the transparency and accountability of charities. Moreover, because public disclosure makes charities' activities widely known, the trust of supporters and partners is strengthened and, as a result, charities' public-benefit activities are pursued more effectively.

By emphasising public scrutiny through transparency and disclosure rather than relying on strict inspection, the Charity Commission's regulatory strategy achieves a balanced approach that prevents misconduct before it occurs while preserving charities' freedom of action. This strategy can be said to maintain the soundness of the charity sector as a whole and to secure its credibility with society at large.

This regulatory policy is expected to continue to play an important role as a foundation for maintaining trust in charitable activity in the UK and supporting the development of the charity sector. A regulatory strategy founded on public disclosure and public scrutiny should therefore be recognised as an effective model for maximising social value while making efficient use of limited resources.

Based on interviews with Ben Harrison, Holly Riley, Kim Andrews, Kate Goodchild, Sarah Elliott and Lee Robinson.

6. The Growth of Charities in the UK and Government Support

Charitable activity in the UK has its origins in the Poor Relief Act, enacted in 1558, and its legal foundations were established by the Charitable Uses Act of 1601. Subsequently, the Charitable Trusts Act, enacted in 1853, established the Charity Commission for England and Wales, and efforts were made to improve the transparency and credibility of charitable activities. As a result, charities have today become an indispensable part of British culture and society.

6.1 Three Pillars Supporting the Growth of the Charity Sector

The growth of the UK charity sector is supported by three pillars: 'direct intervention', 'ensuring an appropriate legal framework' and 'promoting partnership'. Turning first to 'ensuring an appropriate legal framework', the Charity Commission, as the regulator that oversees the activities of charities, plays an important role. Through its guidance (Table 6), the Commission provides direction on how organisations should be run and strengthens transparency and accountability, thereby helping to enhance the credibility of the charity sector as a whole. In addition, by dealing rigorously, case by case, with misconduct and the misuse of charitable purposes, it maintains the health of the sector and underpins the sustainability of its activities.

Table 6: List of Charity Commission guidance

CC3	The essential trustee: what you need to know, what you need to do
CC3a	Charity trustee: what's involved
CC4	What makes a charity
CC7	Ex gratia payments by charities
CC8	Internal financial controls for charities
CC9	Campaigning and political activity guidance for charities
CC11	Trustee expenses and payments
CC12	Improving your charity's finances
CC13	The Official Custodian for Charities' 'land holding' service
CC14	Investing charity money: guidance for trustees
CC15d	Charity reporting and accounting: the essentials November 2016
CC16	Receipts and payments accounts pack
CC17	Accruals accounts pack - SORP FRS 102
CC17	Accruals accounts pack - SORP FRS 102 for charitable companies
CC17 and CC39	Accruals accounts packs - SORP 2005
CC19	Charity reserves: building resilience
CC20	Charity fundraising: a guide to trustee duties
CC21a	How to set up a charity
CC21b	How to register a charity
CC22a	Charity types: how to choose a structure
CC22b	How to write your charity's governing document
CC23	Exempt charities

CC24	Users on board: beneficiaries who become trustees
CC26	Charities and risk management
CC27	Decision-making for charity trustees
CC28	Sales, leases, transfers or mortgages: what trustees need to know about disposing of charity land
CC29	Conflicts of interest: a guide for charity trustees
CC30	Finding new trustees
CC31	Independent examination of charity accounts: guidance for trustees
CC32	Independent examination of charity accounts: examiners
CC33	Acquiring land
CC35	Trustees trading and tax: how charities may lawfully trade
CC36	How to make changes to your charity's governing document
CC37	Charities and public service delivery: an introduction
CC38	Charities and litigation: a guide for trustees
CC40	Charity emergency appeals: starting, running and supporting charitable emergency appeals
CC42	Appointing nominees and custodians
CC43	Incorporation of charity trustees
CC46	Statutory inquiries into charities: guidance for charities
CC47	Complaints about charities
CC48	Charity meetings
CC49	Charities and insurance

6.2 Direct Government Intervention

The UK government promotes the growth of the charity sector through policies that directly support charitable activities. For example, during the COVID-19 pandemic it provided financial support of around £7.6 billion for energy-efficiency improvements, the charity sector and other areas, enabling many charities to overcome economic hardship and continue their charitable activities. In addition, several billion pounds of further support was pledged in this spring's Budget. Support measures such as these strengthen the financial stability of charities and help to build a sustainable foundation for their activities.

6.3 Promoting Partnership

Under 'promoting partnership', the government and charities work together, and policy is developed by drawing on frontline experience and expertise. Charities possess deep knowledge and practical experience of social issues, and by reflecting this knowledge in its policies, the government is able to achieve more effective social interventions. This collaborative relationship strengthens the social impact of charities and enhances the effectiveness of policymaking, thereby contributing to the growth of the charity sector as a whole.

6.4 Small Charities and Large Charities

Around 60% of the charities registered with the Charity Commission are small organisations with an annual income of under £25,000, and many of them are run by volunteers. These small charities play an important social role in local communities, and the government supports their activities through regulatory relief and financial support. Specifically, flexible regulatory measures are in place, such as exempting small charities from

external scrutiny and audit and allowing them to adopt receipts and payments accounting. These arrangements enable small charities to continue supporting their local communities and to carry out a wide range of charitable activities that respond to the social needs of those communities.

At the other end of the scale, there are also large charities with an annual income of over £1 million, which are characterised by the considerable social impact that their financial scale gives them. Large charities are able to tackle international social issues that go beyond the local level, and they make a broader social contribution through partnerships with the government. Although these charities are subject to stricter governance and reporting obligations, the government is also actively introducing support measures to promote their development.

6.5 The Significance of Government Support and the Role of Charities as Social Infrastructure

The UK government intervenes in a variety of ways to support the growth of the charity sector, promoting the development of the sector as a whole by providing funding and putting a legal framework in place. This enables charities to respond effectively to local and international social issues while securing their financial stability.

Furthermore, government support reduces the obstacles that charities face in achieving the purposes for which they were established, and is an important element in building a sustainable foundation for their activities. As a result, charities function as important social infrastructure in British society, playing a part in improving the welfare of society as a whole and in achieving charitable purposes. In this way, the collaborative framework between the government and charities can be said to underpin the growth of the charity sector and to provide the foundation for promoting a diverse range of charitable activities for the benefit of society as a whole.

Based on interviews with Ben Harrison, Holly Riley and Kim Andrews.

7. The Regulator's Promotion of Public Disclosure and Its Impact

The Charity Commission places particular emphasis on public disclosure, with the aim of developing the charity sector and safeguarding its credibility. Public disclosure is an important means of increasing the transparency of charitable activities and of demonstrating accountability, and it has the effect of increasing the trust placed in charities by donors and the public. As a result, it is expected to increase donations and deter misconduct, and is thus anticipated to promote the healthy growth of the charity sector as a whole.

7.1 The Importance of Public Disclosure

The Charity Commission carries out its supervisory work on a limited budget, and it would be difficult for it to examine the activities of every charity in detail. By promoting public disclosure, it therefore aims to ensure the transparency of charities and to deter misconduct through the mechanism of public scrutiny. In particular, monitoring the unrestricted reserves held by charities and their accounting data forms an important part of the Commission's supervisory functions, enabling it to check whether each organisation is managing its finances soundly.

In addition, because decisions in a charity are, in principle, taken independently by its board of trustees, the Commission does not intervene directly in individual decisions unless a serious problem arises. This approach is based on the principle of respecting the autonomy of charities and avoiding excessive regulation. However, the greater transparency achieved through public disclosure enables donors and society as a whole to monitor the activities of charities, and this can be said to be effective in deterring misconduct.

7.2 Disclosure of CEO Remuneration and Board Data

The Charity Commission encourages charities to disclose data on their income and expenditure, the remuneration of executives such as the CEO, and the composition of their boards. Public interest in high levels of CEO pay is particularly strong, and such information plays an important part in ensuring transparency and strengthening trust in charities. Research by the Charity Commission has confirmed that the more actively a charity discloses information, the more readily it gains the trust of donors and, as a result, the more easily it attracts donations.

These disclosure efforts make it easier for charities to gain the support of donors and the general public, which in turn improves the sustainability of their activities. Furthermore, a virtuous circle has emerged: the information disclosed encourages scrutiny by donors and society and leads to highly transparent operations, which strengthens the confidence of donors and ultimately increases the income and social impact of charities.

7.3 The Impact of Public Disclosure and Its Contribution to the Charity Sector

Public disclosure not only enhances the credibility of charities but also plays an extremely important role as a means of communication with donors and society as a whole. The Charity Commission takes the view that by being open about their activities and financial position, charities can be accountable to their donors and supporters and enhance their credibility. Promoting public disclosure in this way supports the healthy development of the charity sector as a whole and provides the foundation for putting in place arrangements capable of addressing a wider range of social issues.

Public disclosure also has a major influence on donor behaviour, leading to increased donations to highly trusted charities and to growing interest in charities that tackle socially important issues. This enables each charity to strengthen the financial base it needs to achieve its social mission and to increase its contribution to society as a whole.

7.4 The Charity Commission's Promotion of Public Disclosure and Its Effects

The public disclosure promoted by the Charity Commission is not merely a means of increasing transparency, but an important policy instrument for improving the credibility and accountability of charities. When the financial position and activities of charities are disclosed to the general public, public scrutiny is strengthened and the trust that donors and society place in the running of charities increases. Greater disclosure also improves the operational efficiency of charities and enables them to maximise their social impact.

As a result, the promotion of public disclosure has become a factor driving the growth and development of the charity sector as a whole, and functions as a foundation that underpins the sustainability of charitable activities. This approach seeks to strike a balance between the autonomy of charities and transparency, and can be regarded as an effective regulatory method for improving the welfare of society as a whole. Public disclosure can therefore be said to be a measure that should continue to be promoted, as an important element in maintaining the credibility of the charity sector and supporting its development.

Based on interviews with Holly Riley, Kim Andrews and Dan Gregory.

8. Issues Concerning the Charities Act 2022 and Future Plans

The Charities Act 2022¹³ came into force in 2022 and has played an important role in strengthening the legal framework of the UK charity sector and in establishing the stable operation of the system. However, the current plans for the system depend heavily on the government's future economic policy and on the judgement of incoming ministers, and changes in the economic environment, particularly those resulting from rising inflation, are having a serious impact on the charity sector. Against this background, a review of the financial thresholds under the Charities Act 2011¹⁴ is being considered, and this will be an important issue for the future direction of the legal framework.

8.1 The Need to Review the Financial Thresholds

Rising inflation in recent years has left many charities, and small charities in particular, facing financial difficulties. The financial thresholds laid down in the Charities Act 2011 (see Appendix 1) were set on the basis of the economic conditions at the time, but in view of the current rate of inflation and the impact of soaring prices, these thresholds can be said to be out of step with present economic conditions. In particular, because the regulatory requirements and support criteria for small charities are said to be either excessively strict or inadequate, there is a need, through a review of the thresholds, to ensure the sustainability of charitable activities and to rebuild a financial base that can respond flexibly to a changing economic environment.

This review of the financial thresholds is an important measure for enabling charities to receive the support they need and to achieve their social missions; at the same time, it has become a priority for the government in adjusting its policies to support the charity sector effectively.

8.2 The Current State and Future of the Legal Framework

The current legal framework has continued to function stably since the Charities Act 2022 came into force, and as no cases have been observed that present a significant obstacle to charitable activities, there is considered to be little need for immediate, large-scale legislative reform. This shows that the current system is appropriately fulfilling its role in regulating and supporting charitable activities, and also suggests that both the regulator and charities have become accustomed to operating under the current law and that stable governance has been established.

However, if a review of the financial thresholds or adjustments in response to inflation and economic fluctuations prove necessary, a flexible response in line with future economic conditions will be required. In particular, there is debate as to whether the current legal framework provides sufficient support for small charities, and legislative amendments or a review of regulation may become necessary in order to respond to rising inflation and growing demand for social support.

8.3 Plans for Future Legislative Reform

Although the current legal framework is stable, adjustments and reviews from a long-term perspective are expected to be a challenge going forward. In particular, for small charities, which are strongly affected by inflation, a review of the financial thresholds and the introduction of new support measures are considered

¹³ <https://www.legislation.gov.uk/ukpga/2022/6/contents>

¹⁴ Charities Act 2011: <https://www.legislation.gov.uk/ukpga/2011/25/contents>

necessary. In this connection, specific changes or legislative amendments may be made on the basis of new government policies and ministerial decisions, and developments are being closely watched.

8.4 Issues Concerning the Charities Act 2022 and Future Prospects

Overall, although the current legal framework under the Charities Act 2022 is operating stably, a review of the financial thresholds in response to inflation and economic fluctuations has emerged as an important challenge for the future. In particular, financial support and regulatory relief for small charities are expected to be at the centre of the debate, and there is a need to put in place a flexible regulatory regime that can respond promptly to changes in the economic environment.

Although no legislative amendments as such are planned at present, debate about the future of the charity system is likely to intensify as government policy and economic conditions change. Therefore, to promote the sustainable growth and social contribution of the charity sector, it is hoped that the financial thresholds and the flexibility of regulation will be reviewed, and how charities and the regulator respond appropriately to this will be a challenge for the future.

Based on an interview with Ben Harrison.

9. The Current State of Dual Regulation of CLG Charities

9.1 Dual Regulation of CLG Charities at Present

Companies limited by guarantee (CLGs), unincorporated associations and trusts are recognised as charities, and permitted to carry on their activities as such, by registering with the Charity Commission. Charities that have legal personality as CLGs, in particular, are required to comply with the requirements of both the Companies Act 2006 and charity law. This 'dual regulation' has the following characteristics.

- (1) In addition to annual reporting and financial reporting under the Companies Act 2006, CLG charities are also obliged to report to the Charity Commission under charity law. As a result, financial reporting and reporting on activities frequently overlap, adding to the complexity.
- (2) The trustees of a CLG charity bear responsibilities as 'directors' under the Companies Act 2006 and must at the same time fulfil their duties as 'trustees' under charity law. They are therefore required to play a dual role, managing their commercial responsibilities as directors and their public-benefit responsibilities as trustees simultaneously.
- (3) CLG charities must comply with the regulation of both Companies House, which administers the Companies Act 2006, and the Charity Commission, which administers charity law, and must satisfy the different requirements and procedures of each.

9.2 The Current Regulation of Charitable Trusts

Charitable trusts are likewise regulated under trust law and charity law, but they are not subject to dual regulation in the way that CLGs, which have legal personality, are. A charitable trust is a form of trust without legal personality; it is regulated mainly within the framework of trust law and charity law and falls outside the scope of the Companies Act 2006. Unlike CLG charities, therefore, charitable trusts are not subject to reporting obligations and regulation under both the Companies Act 2006 and charity law, and they display the following characteristics.

- (1) First, charitable trusts are regulated by trust law and charity law. A charitable trust is administered by its trustees, and the management of the trust property and the activities it carries out for the public benefit are supervised under charity law. Charitable trusts are accordingly required to report annually to the Charity Commission, but there are no directors' duties under the Companies Act 2006, and they have the characteristics of a body without legal personality.
- (2) Second, charitable trusts are not required to register with Companies House. As a charitable trust has no legal personality, it need not undertake financial reporting under the Companies Act 2006 or bear the responsibilities that directors have in corporate activities, so the duplication of reporting seen in CLG charities does not arise.
- (3) Third, although charitable trusts are required under charity law to submit annual reports and financial reports to the Charity Commission, neither the content of those reports nor the requirements overlap with the provisions of the Companies Act 2006. This is because charitable trusts have no legal personality, and it indicates that the regulation of their charitable activities is limited.

Thus, because charitable trusts are administered and regulated within the framework of trust law and charity law, they are notable for not being subject to the kind of dual regulation that applies to CLG charities, which have legal personality, and for falling outside the scope of the Companies Act 2006.

9.3 Measures for Small Organisations under Charity Law

Under UK regulation, some obligations are reduced for small organisations in accordance with the principle of proportionality. In particular, small CLG charities are exempt from the obligation to submit annual reports in the following circumstances.

(1) Small organisations whose income or assets fall below certain thresholds are eligible for simplified financial reporting and exemption from audit. These thresholds are set mainly by reference to income, and they reduce the reporting requirements to Companies House and the Charity Commission.

(2) Small charities are exempt from the obligation to report annually to the Charity Commission, which eases the burden of dual regulation. However, this is limited to charities below a certain level of income (under £25,000), so it does not apply to all CLG charities.

(3) For small organisations, the requirements for internal management and record-keeping by the board of directors or board of trustees are also simplified. This reduces the administrative burden arising from dual regulation.

In this way, the principle of proportionality allows a flexible approach according to size, and a system is in place that enables small organisations to avoid an excessive burden from dual regulation.

9.4 Measures for Small Companies under the Companies Act 2006

CLGs have certain reporting obligations to Companies House, but measures are in place under the Companies Act 2006 to reduce the reporting burden on small companies.

(1) Annual Report

A CLG is required to file an annual report with Companies House every year. The annual report includes financial information, the state of the company's affairs and the composition of its board of directors.

[Burden-reduction measures] Small companies may be permitted to file a simplified annual report and are partly exempt from detailed disclosure. For example, rules apply that allow simplified financial statements to be filed and dispense with the need for an audit.

(2) Annual Confirmation Statement

A company must confirm every year that there have been no changes to its registered information (directors, shareholdings, registered office address, etc.) and file a statement to that effect.

[Burden-reduction measures] Small companies are also subject to this filing obligation, but if there have been no changes it can be completed with a simple confirmation, so the burden is relatively light.

(3) Financial Statements

Companies are normally required to file financial statements together with the annual report, and larger companies must file audited financial statements.

[Burden-reduction measures] Small companies whose income or assets do not exceed certain thresholds may file unaudited financial statements. This reduces the burden of audit fees and procedures.

These burden-reduction measures enable small companies to simplify their reporting obligations and reduce their administrative burden.

10. The Current State of Charitable Trusts

10.1 Overview of Charitable Trusts

The Charity Commission would like all registered charitable companies (companies limited by guarantee: CLGs), unincorporated charities and charitable trusts to convert to charitable incorporated organisations (CIOs).

In a charitable trust, the trustees of the trust manage the trust property and are responsible for acting in accordance with the purposes of the trust, but the trust itself has no legal personality. Besides individuals, those who may act as trustees of a charitable trust include companies limited by guarantee and unincorporated associations registered with the Charity Commission, as well as trust banks and trust companies.

To set up a charitable trust, the following steps must be taken.

- Establish the trust under the Trusts (Capital and Income) Act 2013 (which sets out provisions on the treatment of trust capital and income and guidelines on the management of trust assets).¹⁵
- Apply to the Charity Commission and obtain charitable status under the Charities Act 2011¹⁶ and the Trustee Act 2000 (which sets out the duties and powers of trustees, investment guidelines and other operating rules).¹⁷

10.2 The Recommendation to Convert Charitable Trusts into CIOs

As mentioned above, the Charity Commission recommends that charitable trusts without legal personality, and charitable trusts with a company limited by guarantee as trustee, convert to a CIO (charitable incorporated organisation). However, a CIO is not permitted to act as the trustee of a charitable trust; conversion therefore means transferring the assets and responsibilities held by the charitable trust to a newly established CIO and changing the form of the trust into a CIO with legal personality (a foundation CIO). It is thought that this will enable more efficient and secure operation in pursuit of the purposes of the trust. The specific reasons for recommending conversion to a CIO are as follows.

- Because a CIO has legal personality, its trustees do not have to bear personal legal liability.
- The conferral of legal personality means that assets are held and managed in the name of the organisation itself.
- A CIO is run in accordance with its constitution, which improves transparency and efficiency.
- A CIO is registered directly with the Charity Commission and does not need to comply with the provisions of the Companies Act 2006, which makes administration simpler.
- Because the personal liability of a CIO's trustees is limited, it is easier to take on the role of trustee.
- As a body with legal personality, a CIO can more easily open bank accounts, apply for loans and accept donations.

In recent years, there has been an increasing number of cases in which individual trustees of charitable trusts without legal personality have had to bear personal liability for debts and obligations, and litigation against trustees is on the rise. Traditionally, charitable trusts had no obligation to disclose information about the organisation, were easy to set up and allowed flexible organisational management. Moreover, they were

¹⁵ Trusts (Capital and Income) Act 2013: <https://www.legislation.gov.uk/ukpga/2013/1>

¹⁶ Charities Act 2011: <https://www.legislation.gov.uk/ukpga/2011/25/contents>

¹⁷ Trustee Act 2000: <https://www.legislation.gov.uk/ukpga/2000/29/contents>

widely used because of their high degree of privacy: only one meeting a year was required, governance was light-touch and founders could retain control of the organisation.

However, as the Charity Commission began to tighten regulation and supervise charitable trusts more strictly from about 15 years ago, the element of confidentiality gradually faded, and organisational information on all charitable trusts came to be made public. In addition, new organisational forms offering more favourable tax benefits emerged, so that charitable trusts became relatively less attractive, and dissolutions and conversions to CIOs increased.

10.3 Why a CIO Cannot Be a Trustee

Although both are organisations with legal personality, a company limited by guarantee (CLG) registered with the Charity Commission is accepted as a trustee of a charitable trust, whereas a CIO (charitable incorporated organisation) cannot take on that role. This is due to the following factors.

1) Compatibility of legal personality with the role of trustee

While a CLG is a corporate body with legal personality, it is characterised by greater legal flexibility than a CIO. Specifically, like individuals and other corporate bodies, a CLG has the capacity to enter into contracts and assume obligations, and it meets the legal and regulatory requirements necessary to act as a trustee of a trust. A CLG thus has a structure that allows trust property to be properly managed and invested.

2) Legal and regulatory suitability

A CLG is established and operated under the Companies Act 2006 and is able to accept duties and responsibilities under trust law, so it fits the regulatory framework for acting as a trustee of a trust. A CIO, on the other hand, has a specific legal structure designed to focus mainly on charitable activities, and its operation is strictly controlled by the Charity Commission. In addition, because a CLG can accommodate a wide range of commercial activities and other purposes, it is more readily suited to the role of trustee of a trust.

3) Clarity of responsibility and governance

A CLG is controlled by shareholders with limited liability, and its governance structure is well suited to clarifying its responsibilities as a trustee of a trust. Consequently, whereas a CLG provides an appropriate framework for managing and investing assets in line with the purposes of the trust, a CIO is considered to have difficulty fulfilling the role of trustee of a trust owing to the characteristics of its legal personality.

For these reasons, CLGs are accepted as trustees of charitable trusts.

10.4 The Process of Converting to a CIO

The process of converting to a CIO involves the following steps.

1) Establishing the CIO and registering it with the Charity Commission

First, a CIO is established as an organisation with legal personality to take over the assets and activities of the charitable trust, and it is registered with the Charity Commission.

2) Transfer of assets, liabilities, contracts, rights and obligations

The assets, liabilities, contracts and other rights and obligations of the charitable trust are transferred to the newly established CIO. This requires the necessary legal documents to be drawn up and formal approval to be obtained.

3) Dissolution of the charitable trust and the company limited by guarantee

Once the assets and responsibilities of the charitable trust have been fully transferred to the CIO, the charitable trust and the CLG are dissolved.

Through this process, an organisational foundation is established for achieving the purposes of the trust more efficiently and securely.

10.5 The Current State of Charitable Trusts and the Challenges of Quantifying Them

About ten years ago there were at least 1,000 charitable trusts registered with the Charity Commission, but current estimates suggest that the number has fallen to around 850. The exact figure, however, is not known. Behind this lies the fact that charitable trusts in the UK are administered within a framework based on charity law rather than trust law. In other words, because charitable trusts are administered collectively alongside other ordinary charities, it is difficult to obtain accurate figures for each legal form.

Moreover, the Charity Commission recognises organisations on the basis of their 'charitable purposes' and does not supervise the means by which those purposes are achieved. Consequently, although the Commission knows how many charities are registered under each charitable purpose, it is at present difficult for it to obtain numerical data on the specific activities undertaken or the methods of support used. For example, the number of charities whose purpose is 'poverty eradication' is known, but figures broken down by the activities carried out to achieve that purpose, such as 'meal provision', 'employment support' and 'learning support', are not available in concrete form unless trustees' annual reports and annual returns are examined individually.

Furthermore, the Charity Commission does not scrutinise the activity reports of every charity; it conducts document reviews and interviews with trustees mainly in respect of organisations where problems have arisen (those where incidents have occurred). This operational policy is another factor that makes it difficult to obtain figures by type, such as for charitable trusts and National Trust-type organisations.

In New Zealand, by contrast, the number of charitable trusts is known precisely. Specifically, of the 28,000 registered organisations, about 9,050 (around 32% of the total) are registered as charitable trusts. Such precise figures are possible because charitable trusts are administered and registered independently by the 'Charitable Trusts Registry'. This makes it clear that differences in administrative arrangements affect the ability to quantify charitable trusts.

The administrative arrangements for charitable trusts in Japan should also be mentioned. In Japan, charitable trusts are due to be regulated and administered under a framework separate from that for public interest corporations, and it is hoped that this will enable the Public Interest Corporation Commission to keep an accurate count of the number of charitable trusts. It is therefore possible that, as with public interest corporations, figures for charitable trusts will be published every month. However, it remains to be seen how this will operate in practice as the regulatory framework develops.

As shown above, the challenges in quantifying charitable trusts arise from differences between countries in administrative arrangements and recognition criteria. In future, the differences in administrative methods between countries' charitable trust systems should be examined further, and more consistent methods of managing such figures should be considered.

10.6 The Benefits of Gift Aid for Charitable Trusts

The Gift Aid scheme¹⁸ also applies to charitable trusts: when they receive a donation, they can receive an additional amount from the government equivalent to the basic rate of tax on the donation. For example, if a donor gives £100, the charitable trust can receive a further £25 from the government (basic rate of 25%).

To qualify for Gift Aid, the following requirements must be met.

- The donation must be made by an individual, and Gift Aid applies only where the donor is a taxpayer.
- The donor must agree to the donation being treated as eligible for Gift Aid and submit the necessary documents.
- The charitable trust must keep proper records of all Gift Aid donations and submit them when making a claim.

By regularly claiming Gift Aid on donations that meet these requirements and receiving repayments from the government, charitable trusts can secure additional funds on top of the amounts donated.

10.7 The Outlook for Charitable Trusts

Going forward, the Charity Commission is expected to continue its efforts to strengthen the transparency and governance of charitable trusts and to maintain its policy of recommending conversion to CIOs. This initiative aims to improve the efficiency and credibility of the charity sector as a whole, and in the long term the number of charitable trusts may decline further. The future of charitable trusts is therefore expected to unfold alongside a transition to a new governance model centred on the CIO.

Overall, the move from charitable trusts to CIOs is an important strategic shift that contributes to the sustainability and credibility of charitable activities, and, as part of the modernisation and streamlining of the sector as a whole being driven by the Charity Commission, it can be said to be an issue that deserves continued attention. The current state of charitable trusts and how they evolve in future may therefore serve as an important indicator of the development of the charity sector.

Based on interviews with Aarti Thakor and Chris Willis Pickup.

¹⁸ Gift Aid is the UK's tax relief for donations: where the donor is a taxpayer, the charity can receive from the government an amount equivalent to tax at the basic rate (25%) on the donation. This increases the value of donations and strengthens support for charities.

11. The Role and Functions of the First-tier Tribunal (Charity)

11.1 Background to the Establishment of the First-tier Tribunal (Charity)

The First-tier Tribunal (Charity) was established in 2008 under the Tribunals, Courts and Enforcement Act 2007,¹⁹ and formally began operating on 1 September 2008. It is a specialist body that plays an important role in providing charities with a means of legal redress when they challenge decisions of the Charity Commission.

Unlike the ordinary civil courts, the Tribunal is characterised by simplified procedures and a relatively low-cost means of litigation, providing an environment in which charities can more easily assert their rights through legal proceedings. In addition, comprehensive guidelines and support arrangements for legal assistance are in place, providing a framework that enables charities to argue their case effectively.

11.2 Simplified Procedures and Support Arrangements

The First-tier Tribunal (Charity) has adopted simple procedures and a low-cost litigation system with the aim of reducing the burden on charities and providing a fair legal environment. The Tribunal offers support with legal proceedings through online resources and help desks, and as there are many law firms and lawyers providing pro bono legal assistance, an environment has been created in which even charities in financial difficulty can readily obtain legal support.

Furthermore, flexible means of resolution such as arbitration and mediation are offered as alternative dispute resolution (ADR) to avoid litigation. This makes it possible to resolve disputes more quickly and at lower cost than through litigation, which significantly reduces the burden, particularly for financially vulnerable charities. Legal aid is also available: charities that meet certain conditions can receive help with some or all of their litigation costs, enabling them to pursue legal proceedings without being constrained by financial limitations.

11.3 The Cost-Neutrality Principle and the Provision of a Fair Legal Environment

The First-tier Tribunal (Charity) upholds the 'cost-neutrality principle' and aims to maintain a balance in the financial burden between the parties to proceedings. In particular, arrangements are in place to keep litigation costs to a minimum, so that the cost of legal proceedings does not become a barrier for charities facing financial constraints.

Specifically, there is a scheme for the reduction and remission of Tribunal fees, as well as special provisions on the sharing of costs, so that the system is flexibly designed to allow charities to choose a level of burden appropriate to their financial circumstances. This system enables even charities in financial difficulty to pursue legal proceedings and, as a result, makes it possible both to ensure legal fairness across the charity sector as a whole and to provide a genuine opportunity to challenge decisions of the Charity Commission.

11.4 The Functions and Effectiveness of the Tribunal

The First-tier Tribunal (Charity) has continued to handle a number of appeals since 2023, demonstrating its functions and effectiveness. By dealing with appeals against decisions of the Charity Commission, the Tribunal confirms the legal rights and obligations of charities and is responsible for providing a fair legal environment

¹⁹ <https://www.legislation.gov.uk/ukpga/2007/15/contents>

between the Charity Commission and charities. In particular, the Tribunal's decisions serve as guidance for improving the governance and transparency of charities, and contribute to securing trust in the charity sector.

Through these functions, the existence of the First-tier Tribunal (Charity) provides a fair and just legal environment across the charity world as a whole, enabling charities to pursue legal proceedings while receiving appropriate support. In particular, where a decision of the Charity Commission is found to be inappropriate, the Tribunal can set it aside and provide fair redress to the charity concerned, thereby contributing to improved governance and greater trust in the charity sector.

11.5 The Future Outlook for the First-tier Tribunal (Charity)

In future, the First-tier Tribunal (Charity) will need to respond to the growing number of appeals against decisions of the Charity Commission and create an environment in which more charities can make use of legal proceedings. In particular, the aim is to make Tribunal procedures more efficient and less costly by promoting digitalisation and expanding online procedures. Further challenges for the future include reliably protecting the legal rights of charities and further strengthening legal support arrangements by improving the transparency of, and access to, proceedings.

Overall, the First-tier Tribunal (Charity) can be described as an important institution that provides charities with a fair means of legal redress and strengthens legal governance across the charity sector. Its role is expected to expand further as a system that supports the sustainable development of charities and the maintenance of public trust in them.

Based on an interview with Kate Goodchild.

12. Changes in the Charity Sector Brought About by the COVID-19 Pandemic and Inflation

12.1 Overview of the Impact of the Pandemic

The COVID-19 pandemic had a serious impact on the charity sector. As many traditional face-to-face services became difficult to provide, the way in which charities operate changed dramatically.

To comply with social distancing and lockdown measures, many charities were forced to turn to online support and digital technology, and the shift from face-to-face activities to digital formats progressed rapidly. This change also had a major effect on charities such as the National Council for Voluntary Organisations (NCVO), and it brought new benefits too: moving annual conferences and events online, for example, improved access for people living in the regions and for groups who had previously found it difficult to take part.

However, not all charities were able to adapt to digitalisation in this way. Charities whose support work is by its nature difficult to deliver online, in particular, faced challenges such as restrictions on their activities and fewer opportunities for contact with the people they support. In addition, the rise in inflation that followed the pandemic has placed a particularly heavy financial burden on small charities and has had a major impact on operating conditions across the sector as a whole.

12.2 Fundraising Challenges and the Adoption of Digital Technology

As a result of the pandemic, face-to-face fundraising and events became difficult to hold in the charity sector, and traditional fundraising methods ceased to work. In response, many charities had no choice but to introduce new fundraising methods using digital technology. Specifically, they made use of online fundraising platforms and sought to strengthen their relationships with supporters through digital marketing. Online crowdfunding and donation campaigns on social media attracted particular attention, and the use of digital technology made it possible to attract new groups of donors in addition to traditional supporters.

The adoption of these digital technologies can be said not only to have diversified the means of fundraising but also to have opened up new prospects for charitable activity in the post-pandemic period. Adapting to digitalisation, however, requires initial investment and technical support, and it remains a major challenge, especially for small charities with limited resources. Enhanced technical support and training to promote digitalisation are therefore being called for as important support measures for the future.

12.3 Changes in the Number of Charities

Looking at the trend in the number of charities since 2000, the number rose until 2007, but in the wake of the global recession of 2008, 10,000 charities were weeded out in the space of just two years (Figure 1). In addition, under the implementation plan for the Charities Act 2006, the public benefit test under the new Act was applied to existing charities from 2008 onwards, and charities that could not demonstrate public benefit were dissolved; this too was one of the reasons for the fall in the number of charities (Shiraishi, 2024). After 2011 the number began to rise again, and it continued to rise even between 2020, when the COVID-19 pandemic broke out, and 2022. This was because the pandemic increased the need for social support, leading to the establishment of new charities, particularly in the fields of local community support and healthcare. The substantial financial support provided by the UK government, which helped to revitalise the charity sector, is also considered to have contributed to the increase.

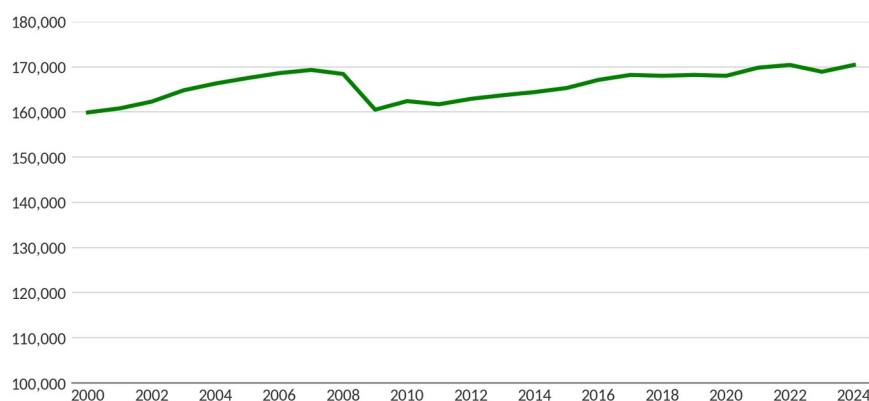


Figure 1: Trend in the number of charities since 2000

Source: Statista, Number of charities in England and Wales from 2000.

In 2023, however, inflation and changes in the international economic environment left many small charities facing financial difficulties, and there was a succession of cases in which charities were forced to wind up. As a result, the number of charities fell for the first time in 12 years. In 2024, on the other hand, the number of charities began to rise again, which indicates that the post-pandemic economic recovery and additional government support measures to curb the effects of inflation have been effective. In particular, the fact that the adoption of digital technology has enabled charitable activities to be carried out in new forms is also thought to have been one of the factors supporting the recovery of the charity sector.

12.4 Future Prospects for the Charity Sector

The COVID-19 pandemic and rising inflation presented the charity sector with serious financial and operational challenges, but with the adoption of digital technology and financial support from government, charitable activity is showing signs of recovery. In particular, as digitalisation advances, online fundraising and online support activities are expected to play an important role in charitable activity in the future. The online fundraising and remote support methods introduced during the pandemic are likely to become established as principal means of charitable activity and to make charities' work more flexible.

However, as long as inflation and economic instability persist, the financial position of small charities in particular will continue to require attention. If these organisations are to operate sustainably, continued support from government and supporters is essential, and they will need to make use of their reserves and strengthen their financial management capabilities. Furthermore, while the greater convenience brought by digitalisation benefits some organisations, there is also a risk of a widening digital divide, so support arrangements need to be put in place, particularly for organisations in the regions and those with limited technical resources.

If the charity sector is to achieve sustained growth in the future, further use of digital technology will be essential, together with the associated development of skilled personnel, technical support and stronger financial support measures. Building the foundations that enable charities to fulfil their social missions while responding to increasingly diverse social needs and changing economic conditions is likely to be an important challenge in the years ahead.

Based on interviews with Jan Toporowski, Sarah Elliott and Lee Robinson.

13. Recent Developments in Social Enterprise

13.1 The Growth and Characteristics of Social Enterprises in the UK

In recent years, social enterprises in the UK have grown rapidly, and the scope of their activities and their social influence have expanded markedly. Behind this lie growing interest in sustainable business models and a search for new approaches to social problems that are difficult to solve through traditional charitable activity.

Social enterprises differ from traditional charities and from ordinary for-profit businesses in that, while their main purpose is to create social value, they combine this with profit-making business activities in order to build sustainable business models.

There are currently around 65,000 social enterprises across the UK, and their number is growing steadily. While pursuing social purposes, each of these enterprises secures profitability and so operates independently, and social enterprises are regarded as a new form of business in that they use business methods to expand their social impact. This chapter aims to give an overview of the background to and drivers of this growth and of the characteristics of social enterprises, and presents an overall picture of the social enterprise sector.

13.2 The Diversification of Legal Forms for Social Enterprises and the Spread of the CIC

Social enterprises can take a variety of legal forms, including the charitable incorporated organisation (CIO), the company limited by guarantee (CLG), the limited liability partnership (LLP),²⁰ the community interest company (CIC) and the co-operative, in the form of the co-operative society or the community benefit society (CBS).

Each legal form has different legal requirements and operational characteristics, and the form is chosen flexibly according to the social purposes the organisation pursues and the nature of its activities. This diversity has been one of the factors driving the growth of the social enterprise sector in the UK: the diversification of legal forms increases the independence of individual enterprises and, at the same time, serves as a means of maximising social impact.

In particular, the CIC, which was created in 2005, stands apart from other legal forms in that it requires a clearly defined social purpose and imposes an obligation to reinvest profits. There are currently 28,878 CICs registered across the UK (Regulator of Community Interest Companies, 2023), confirming the rapid spread of the form. Co-operative forms such as the CBS, meanwhile, are characterised by democratic decision-making processes and embody a model of governance for social enterprises.

13.3 The Growth of Community Interest Companies (CICs)

Since its creation in 2005, the CIC has grown rapidly as a leading form of social enterprise in the UK. As at March 2023, the number of registered CICs had reached 28,878, far exceeding the number of co-operatives registered at the same date (11,580). Of the registrations made between 2021 and 2022, CICs accounted for 51%, more than half, which shows how popular the CIC has become (Social Enterprise UK, 2023). Of this 51%, 33% were CICs limited by guarantee and 11% CICs limited by shares.

This growth can be attributed to the fact that the CIC's legal flexibility, its operational autonomy and its hybrid nature, combining for-profit and non-profit elements, make it an attractive option for social entrepreneurs.

²⁰ The UK limited liability partnership (LLP) resembles the Japanese *gōdō kaisha* (limited liability company, LLC). Although an LLP has legal personality, its profits are shared among the partners as in a partnership.

Because the CIC allows its founders to exercise strong leadership in running the organisation while still pursuing a social mission, it has been adopted by many entrepreneurs and people running social businesses.

In addition, the founders of a CIC can be involved in its management as directors while drawing a salary, and do not need to hand authority over to an independent board, so a distinctive feature of the CIC is that managerial flexibility is easier to maintain than in other legal forms. In this way, the CIC makes it possible to combine business methods with social purposes in a way that traditional charities and non-profit organisations could not, and it has come to occupy a central place among social enterprises in British society.

13.4 Differences between CICs Limited by Guarantee and CICs Limited by Shares

There are two types of CIC, the CIC limited by guarantee and the CIC limited by shares, each with the following characteristics.

CIC limited by guarantee

The CIC limited by guarantee is a form that is usually run in much the same way as a non-profit organisation or charity. It has no owners or shareholders, and it is required to reinvest its profits or use them for social purposes. It has guarantors (members), who undertake to contribute a fixed amount (usually a small sum) if the company is wound up. This differs from the risk borne by shareholders in a conventional company. The distribution of profits and payment of dividends are restricted, and almost all of the profits it earns are used for the community or for its social mission.

CIC limited by shares

The CIC limited by shares is a form in which, as in an ordinary for-profit company, shares are issued and ownership lies with the shareholders. It can pay dividends to its shareholders but, unlike an ordinary company, it is subject to restrictions on the distribution of profits. In other words, it can pay dividends only within certain limits, and the remainder must be used for social purposes. Although this form tends to attract investors' interest and is often used as a means of raising finance, the company's activities are constrained to the pursuit of community benefit.

In either form, to operate as a CIC a company must pass the 'community interest test' on formation, demonstrating that its activities are carried on for the benefit of the community. It is also supervised by the CIC Regulator, and is required to return its profits to society and to operate with a high degree of transparency.

The CIC limited by guarantee is closer to a non-profit organisation, while the CIC limited by shares, although it can pay out part of its profits as dividends, also makes possible profit-making activities centred on social benefit.

13.5 Regulations and Restrictions on CICs

Unlike other forms of social enterprise, the CIC is a legal form with its own particular regulations and restrictions. The formation and operation of CICs are overseen by the Office of the Regulator of Community Interest Companies, based in Cardiff, and a company must satisfy the 'community interest test' on formation. The test confirms that the CIC will genuinely serve the interests of the community, and a company that does not meet it will not be approved.

The community interest test consists of the following three main regulations. First, there is a dividend cap: a CIC may distribute up to a maximum of 35% of its profits to shareholders as dividends, but it is not allowed to distribute all of its profits as dividends and is required to reinvest at least 65% of its net profit for the benefit of the community. This restriction on dividends ensures that returning profits to the community takes priority.

Second, there is the asset lock: because a CIC's assets are protected by the asset lock, even if the organisation is dissolved or its assets are sold, those assets must not be used for profit-making purposes, but must instead be used for the benefit of the community or transferred to another CIC or to a charity. Third, to ensure transparency in the distribution of profits, CICs are required to submit regular reports on their activities, confirming that the distribution of dividends and the use of profits are appropriate, and demonstrating that sufficient benefit has been returned to the community.

These regulations ensure that, although a CIC pursues profit, its social mission comes first, and they are an important element in securing its credibility as a social enterprise.

13.6 The Role of the CIC in the Development of Social Enterprise

The CIC plays a central role in the development of social enterprise in the UK, and its institutional framework has also influenced other forms of social enterprise. With its flexible and autonomous governance structure, and by combining for-profit and non-profit elements, the CIC makes it possible to maximise social impact while maintaining economic sustainability. The growth of the CIC has therefore also had a positive effect on other forms of social enterprise (such as CIOs and CLGs), promoting the development of the social enterprise sector across the UK as a whole.

The success of the CIC has also attracted international attention: similar systems have been adopted in countries such as Thailand, Jamaica and Sudan, and attempts have been made to introduce social enterprise certification schemes in countries such as Denmark and Vietnam. In these countries, however, tax incentives were insufficient, and as a result the schemes did not become as widespread as the CIC. It is hoped that, in future, the success of the CIC will be widely recognised as a model for the design of social enterprise systems in other countries.

Thus the CIC plays a central role in the development of social enterprise not only in the UK but also internationally, and it can be regarded as an indispensable element in understanding the growth of the social enterprise sector.

13.7 The Need for Greater Transparency in Co-operatives

In the UK, access to information on co-operatives remains difficult, and their lack of transparency is a problem. A fee has to be paid to view a co-operative's annual report, and information about these organisations is not easy to access. Information on the charity sector, by contrast, can be obtained easily and free of charge, and this contributes to the sector's credibility. In view of this, it can be said that co-operatives, too, need to take steps to make information available free of charge and to improve transparency.

Based on an interview with Dan Gregory.

14. The Activities of Infrastructure Organisations in the UK

14.1 Overview and History of NCVO

The National Council for Voluntary Organisations (NCVO), a leading infrastructure (intermediary support) organisation in the UK, carries out a wide range of support activities as the body representing the voluntary and community sectors as a whole. NCVO was founded in 1919 as the National Council of Social Service (NCSS), and its initial role was to link various voluntary organisations with government departments.

Its establishment was funded by the legacy of Edward Vivian Birchall, who was killed in the First World War. In 1980 it adopted its current name, the National Council for Voluntary Organisations, and it has since broadened the scope of its activities further: in 2013 it merged with Volunteering England, which promoted volunteering, and following the closure of the Small Charities Coalition (SCC)²¹ on 31 March 2022, it continued SCC services such as the helpdesk and resource hub.

NCVO is a registered charity (charity number 225922) that supports the voluntary and community sectors and works to create an environment in which an independent civil society can flourish. It has some 18,000 member organisations, ranging from large national bodies to local community groups, volunteer centres and international development agencies.

Its income in 2023 amounted to £7.1 million (approximately ¥1.5 billion), on the basis of which it supports the sector as a whole and carries out research and policy advocacy. In particular, it plays a central role in supporting small charities, identifying the challenges these organisations face and contributing to the development of the whole sector through practical and strategic support. As of 2023, it had 77 staff.

From its foundation until 1992, NCVO's headquarters were at 26 Bedford Square, London. Today it owns its own building beside the canal at 8 All Saints Street, where a small room is provided for each member of staff. The building also has a spacious staff lounge and a cafeteria, among other facilities.

The following sections outline NCVO's main activities and their significance.

14.2 The Current Situation of Charities and the Challenges They Face

Every year, NCVO's Department of Research publishes the UK Civil Society Almanac, which analyses and assesses the state of the UK charity sector. Drawing on data on some 180,000 charities registered as members, this annual publication sets out trends in the sector as a whole, its financial position and patterns in its activities. In particular, between 2021 and 2022, inflation and changes in the international economic environment led to an increase in the number of small charities closing, and the number of charities showed a decline for the first time in 12 years.

On the basis of these data, NCVO feeds the current situation of small charities, and the challenges arising from it, into its policy recommendations, and seeks to strengthen support for them through dialogue with the government.

²¹ The Small Charities Coalition (SCC) was an organisation founded in 2008 to support small charities in the UK. Its main purpose was to support small charities with an annual income of £1 million or less through a helpdesk and advice, networking and mentoring, and training and resources.

14.3 The Impact of the COVID-19 Pandemic and Inflation

The COVID-19 pandemic dealt a severe blow to the UK charity sector. Many charities had to stop providing face-to-face services and were forced to move to online support. In particular, restrictions on fundraising events and street collections meant that traditional means of securing income no longer worked, and many organisations had to look for new methods of fundraising.

In response, NCVO has been working to support charities' digital shift by introducing fundraising methods that make use of digital technology and by providing online training and seminars.

14.4 Support Arrangements for Small Charities

NCVO offers numerous services designed specifically to support small charities. For example, charities with an annual income of less than £30,000 can become members of NCVO free of charge, and arrangements are in place for them to access the information and training they need at low cost. Because small charities often struggle with shortages of staff and funds, NCVO provides support tailored to their needs, helping them to sustain and grow their activities.

In its membership scheme, too, NCVO has adopted a fee structure based on total annual income in order to reduce the burden on small charities, so that even charities with limited funds can easily become members (Table 7). It also offers discounts of up to 15% for paying for a three-year membership in a single payment or for paying by direct debit.

In this way, NCVO helps small charities to increase their influence in society through policy advocacy and training. NCVO has also proposed special measures for small charities to the Charity Commission, promoting the creation of an environment in which, through the relaxation of regulatory requirements, these organisations can operate more easily. NCVO is in a position to make such proposals to the Charity Commission precisely because it has itself put special measures in place for small organisations.

Table 7: NCVO membership fee structure

Total annual income	Annual fee	Direct debit	3-year membership fee	3-year membership, direct debit
Under £30,000	Free	–	–	–
£30,000–£50,000	£59	£56	£159	£151
£50,000–£100,000	£133	£126	£357	£337
£100,000–£500,000	£201	£191	£542	£513
£500,000–£1M	£486	£482	£1,310	£1,238
£1M–£5M	£688	£653	£1,858	£1,755
£5M–£10M	£1,312	£1,246	£3,542	£3,346
£10M–£25M	£1,610	£1,526	£4,347	£4,106
£25M–£50M	£2,004	£1,904	£5,411	£5,110
Over £50M	£2,514	£2,388	£6,788	£6,411

Source: <https://www.ncvo.org.uk/get-involved/join/#costs>

14.5 Public Disclosure and Ensuring Transparency

NCVO ensures the transparency of charities through public disclosure of information and promotes monitoring by the general public and donors. In this way, it aims to deter misconduct without introducing excessive regulation and to enhance the trustworthiness of the sector as a whole.

Specifically, by making charities' financial data and details of their activities widely available, NCVO makes it easier for donors and supporters to evaluate organisations' activities and raises the profile of highly trustworthy charities. This approach is more effective than direct regulation or supervision by the government, and it serves to encourage charities to strengthen their governance on their own initiative.

14.6 Policy Advocacy as an Infrastructure Organisation

Acting as a bridge between charities and the government, NCVO also puts considerable effort into policy advocacy. Working with the Charity Commission and the relevant government departments, it proposes the easing of regulation and the introduction of new support measures in a way that reflects the views of the sector as a whole. In particular, in order to improve the financial position of charities affected by COVID-19 and inflation, it has called on the government to introduce more flexible regulatory requirements and to provide additional financial support.

In addition, by basing its policy recommendations on research data, NCVO exerts an effective influence on government policymaking and contributes to a better institutional environment for charities.

14.7 Adopting Digital Technology and Strengthening Internal Systems

In recent years, NCVO has been actively adopting digital technology and seeking to make its operations more efficient through the use of AI and data analysis tools. Its Department of Research is putting in place a system for collecting data on charities' activities through digital platforms and analysing them in real time.

This will enable NCVO to grasp the state of charities' activities and their needs quickly and to put more effective support measures in place. Furthermore, through digitally enabled services and online events, it is strengthening its support for people living in the regions and for charities with limited resources.

14.8 The Importance of the Principle of Proportionality for Small Charities

In the UK, the principle of proportionality has been built into regulatory requirements, so that small charities are regulated flexibly in a manner appropriate to their size.

For example, measures geared to size are in place, such as simplified requirements for submitting trustees' annual reports and exemption from external audit, providing a framework that allows small charities to sustain their activities without bearing an excessive regulatory burden.

NCVO strongly supports the application of this principle of proportionality and, representing the views of small charities, makes recommendations to the government and the regulator.

14.9 Conclusion

As an infrastructure organisation in the UK, NCVO contributes both to supporting the activities of charities and to the development of the sector as a whole. It is distinguished in particular by the multifaceted support it provides, including its attention to the needs of small charities, greater transparency through public disclosure and greater efficiency through the adoption of digital technology. It is to be hoped that NCVO will continue to

engage in policy advocacy through dialogue with the government and to support the charity sector so that it can grow sustainably and contribute to society.

Based on interviews with Sarah Elliott and Lee Robinson.

15. Implications for the Reform of Japan's Public Interest Corporation System

The UK charity sector achieves effective governance through proactive public disclosure by the regulator and by charities themselves, together with monitoring by society as a whole. A particular feature is that, rather than relying on strict regulation, it places emphasis on a flexible regulatory approach and on transparency, which makes it possible both to deter misconduct and to ensure the sustainable development of charitable activities. This has created an environment in which the charity sector as a whole can respond to diverse social needs while achieving its charitable purposes effectively.

In Japan, on the other hand, the complex and strict regulatory requirements of the public interest corporation system appear to be impeding the efficiency of public interest activities and making it particularly difficult for small public interest corporations to operate. In this respect, the regulatory model of the UK charity sector can be regarded as an example that Japan should draw on in reforming its system. The main features of the UK charity system, and the implications they hold for the reform of Japan's public interest corporation system, are summarised below.

15.1 Regulatory Flexibility and the Effects of Public Disclosure

In the UK, as long as a charity is run in accordance with the purposes for which it was established, no prior review of individual activities is required; the content of each activity is dealt with by reporting after the event. This regulatory approach avoids excessive administrative intervention in charities and allows them to develop their activities more freely and flexibly. Furthermore, by making use of public disclosure and social monitoring, a system has been established in which, rather than the government or the regulator directly monitoring every activity, society as a whole monitors the activities of charities.

This approach has the great advantage of reducing excessive regulatory burdens and promoting the efficient operation of charities. In Japan, too, it should be possible, by strengthening public disclosure and social oversight, to ease excessive regulation while still preventing misconduct effectively. Specifically, increasing the transparency of public interest corporations through the publication of annual reports and financial information, while at the same time encouraging oversight by the general public, could be one direction for regulatory reform of Japan's public interest corporation system.

15.2 Consideration for Small Charities and the Principle of Proportionality

Under UK regulation, the rules that apply vary with the size of the charity, and special measures have been introduced to reduce the regulatory burden on small charities. For example, flexible arrangements appropriate to size are in place, such as simplified trustees' annual reports and exemption from external audit. Applying the principle of proportionality in this way is an effective means of eliminating excessive regulation of small charities and making it easier for them to continue their activities by making effective use of their limited resources.

Introducing a similar principle of proportionality into Japan's public interest corporation system would be an effective way, in particular, of reducing the operational burden on small public interest corporations and helping them to continue their socially beneficial activities. One possibility, for example, would be to exempt small public interest corporations whose finances fall below certain thresholds from some of their audit and

reporting obligations, thereby reducing their administrative workload and enabling them to devote more resources to their public interest purposes.

15.3 Use of Digital Technology and Government Support

Despite the effects of the COVID-19 pandemic and inflation, the UK charity sector has used digital technology to explore new methods of fundraising and new ways of delivering support. Thanks to the spread of online events and digital fundraising, many charities were able to overcome difficult circumstances and continue their activities. Appropriate financial support from the government has also played an important role in helping the charity sector to recover.

In Japan, too, promoting the use of digital technology in combination with government support could make the activities of public interest corporations more efficient and more dynamic. What is needed is the development of infrastructure for using digital technology, such as promoting online support services and the online submission of periodic filings, promoting digital transformation (DX) and supporting the wider use of digital fundraising platforms. There is also a need to support digitalisation by providing training programmes to improve the digital literacy of public interest corporations and by enhancing technical assistance.

15.4 Towards More Flexible Reserves Management to Support the Sustainability of Public Interest Corporations

The UK charity sector's approach to managing reserves offers important lessons for the way reserves are viewed in Japan's public interest corporation system. Public interest corporations in Japan are often subject to restrictions on holding reserves, which can make it difficult for them to use their funds freely, and this is a factor that undermines the sustainability of public interest activities, including those of small corporations.

As the UK example shows, holding unrestricted reserves is an important means of coping with unforeseen events and falls in income, and it helps charities to achieve their charitable purposes over the long term. It is hoped that enabling flexible reserves management will likewise create an environment in which Japan's public interest corporations can build a stable operational base and fulfil their social missions sustainably.

In short, we believe that a flexible institutional framework for reserves is essential if Japan's public interest corporations are to carry out their activities sustainably and have a broad impact on society.

15.5 Concluding Remarks

The successful examples of the UK charity sector show that, by building on flexible and effective regulation and the co-operation of society as a whole, it is possible to deter misconduct while maintaining transparency, without relying on excessive regulation. These UK examples are also extremely valuable as a point of reference for the reform of Japan's public interest corporation system. Specifically, what is needed is a new institutional design that combines flexible regulation, the promotion of public disclosure and stronger social oversight with technological innovation and government support.

It is hoped that such reforms will put in place a foundation that enables Japan's public interest corporations, too, to fulfil their social missions efficiently and sustainably. In particular, creating an environment that reduces the regulatory burden on small corporations and enables them to operate freely and flexibly could be an important goal. Such an approach would enable Japan's public interest corporations to achieve their public interest purposes in a stable and effective manner and to have a wide-ranging impact on society as a whole.

The UK's approach to managing reserves is also an instructive example for Japan's public interest corporations. Holding an appropriate level of unrestricted reserves is essential as a safeguard against unforeseen events and falls in income, and it serves as a foundation that supports the sustainability of public interest activities. It is therefore desirable to incorporate flexible reserves management into the Japanese system as well, thereby strengthening the long-term financial base of public interest corporations and promoting their stable growth as organisations.

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Appendix 1: Charity Procedures in England and Wales

1. Procedures for charities

The requirements for registration and for the documents to be submitted periodically, by income band, are as follows (based on the guidance 'Prepare a charity annual return' and the Charities Act 2011).

(1) Unincorporated associations

Charity registration	Online registration application	Tax-exemption registration (HMRC)
Under £5,000	Optional	○
£5,000–£10,000	○	○
£10,000–£25,000	○	○
£25,000–£250,000	○	○
£250,000–£1 million	○	○
£1 million and over	○	○

- Small charities are subject to certain of the Commission's regulatory powers. They may also choose to register as a charity. For tax purposes, they are exempt from tax merely on presentation of supporting evidence, without a registration number.

Annual reporting (£)	Updating details			Annual return			Annual report preparation		Annual report (including accounts)			Accounting standard
	CC	HMRC	CH	A, B	C	D	Small	Large	Filing	Scrutiny required	Audit	
Under £10,000	○	○	–	–	–	–	○	–	–	–	–	Choice
£10,000–£25,000	○	○	–	○	–	–	○	–	–	–	–	Choice
£25,000–£250,000	○	○	–	○	○	–	○	–	○	○	–	Choice
£250,000–£500,000	○	○	–	○	○	–	○	–	○	○	–	SORP
£500,000–£1 million	○	○	–	○	○	○	–	○	○	○	–	SORP
£1 million and over	○	○	–	○	○	○	–	○	○	–	○	SORP

- The full report prepared by large charities must be based on the Statement of Recommended Practice (SORP).
- Annual reports and other documents for the past six years must be kept at the charity's office.
- 'Scrutiny required' means that external scrutiny is required.
- Where annual income is £250,000 or more, an audit is also required if total assets are £3.26 million or more.
- CH stands for Companies House.
- 'Choice' under 'Accounting standard' means that the charity may choose either receipts and payments accounting or the SORP (Statement of Recommended Practice – Accounting and Reporting by Charities).

(2) Charitable companies: charities in the form of a company limited by guarantee (CLG)

Charity registration	Online registration application	Tax-exemption registration (HMRC)
Under £5,000	Optional	○
£5,000–£10,000	○	○
£10,000–£25,000	○	○
£25,000–£250,000	○	○
£250,000–£1 million	○	○
£1 million and over	○	○

- Small charities are subject to certain of the Commission's regulatory powers. They may also choose to register as a charity. For tax purposes, they are exempt from tax merely on presentation of supporting evidence, without a registration number.

Annual reporting (£)	Updating details			Annual return			Annual report preparation		Annual report (including accounts)			Accounting standard
	CC	HMRC	CH	A, B	C	D	Small	Large	Filing	Scrutiny required	Audit	
Under £10,000	o	o	o	-	-	-	o	-	-	-	-	Choice
£10,000-£25,000	o	o	o	o	-	-	o	-	-	-	-	Choice
£25,000-£250,000	o	o	o	o	o	-	o	-	o	o	-	SORP
£250,000-£500,000	o	o	o	o	o	-	o	-	o	o	-	SORP
£500,000-£1 million	o	o	o	o	o	o	-	o	o	o	-	SORP
£1 million and over	o	o	o	o	o	o	-	o	o	-	o	SORP

- The full report prepared by large charities must be based on the Statement of Recommended Practice (SORP).
- Annual reports and other documents for the past six years must be kept at the charity's office.
- 'Scrutiny required' means that external scrutiny is required.
- Where annual income is £250,000 or more, an audit is also required if total assets are £3.26 million or more.
- 'Choice' under 'Accounting standard' means that the charity may choose either receipts and payments accounting or the SORP (Statement of Recommended Practice – Accounting and Reporting by Charities).

(3) Charitable incorporated organisations (CIOs)

Charity registration	Online registration application	Tax-exemption registration (HMRC)
Under £5,000	o	o
£5,000-£10,000	o	o
£10,000-£25,000	o	o
£25,000-£250,000	o	o
£250,000-£1 million	o	o
£1 million and over	o	o

Annual reporting (£)	Updating details			Annual return			Annual report preparation		Annual report (including accounts)			Accounting standard
	CC	HMRC	CH	A, B	C	CC	Small	Large	Filing	Scrutiny required	Audit	
Under £10,000	o	o	-	o	-	-	-	o	o	-	-	Choice
£10,000-£25,000	o	o	-	o	-	-	-	o	o	-	-	Choice
£25,000-£250,000	o	o	-	o	o	-	-	o	o	o	-	Choice
£250,000-£500,000	o	o	-	o	o	-	-	o	o	o	-	SORP
£500,000-£1 million	o	o	-	o	o	o	-	o	o	o	-	SORP
£1 million and over	o	o	-	o	o	o	-	o	o	-	o	SORP

- The full report prepared by large charities must be based on the Statement of Recommended Practice (SORP).
- Annual reports and other documents for the past six years must be kept at the charity's office.
- 'Scrutiny required' means that external scrutiny is required.
- Where annual income is £250,000 or more, an audit is also required if total assets are £3.26 million or more.
- 'Choice' under 'Accounting standard' means that the charity may choose either receipts and payments accounting or the SORP (Statement of Recommended Practice – Accounting and Reporting by Charities).

2. Contents of the Charity Commission's register (The Register)

Documents held by the Charity Commission (which can be viewed and downloaded from the Charity Commission's website):

- The charity's name, address and contact details (including email address)
- The type and date of the governing document (trust deed for a charitable trust, articles of association for a company limited by guarantee, constitution for an unincorporated association, etc.)
- Names of the trustees (for a trust) and charity trustees
- Accounts (annual statement of accounts)
- Trustees' annual report
- Annual return
- Date of registration and registration number

3. Application for charity registration

Documents required for registration

- Governing document *1
- Trustee declaration (signed)
- Most recent bank statement

Note: Depending on the content of the application, the Commission may ask for evidence of income of £5,000 or less, a business plan, permission to use the organisation's name, minutes of meetings, evidence of how the organisation will benefit the public, a lease for its office or other premises, a certificate of incorporation, and policies, rules and similar documents held by the organisation.

Contents of the application form

(Governing document)

- Type of governing document at establishment (trust deed for a charitable trust, articles of association for a company limited by guarantee, constitution for an unincorporated association, etc.)
- Origin of the governing document (the organisation's own or that of a national organisation)
- Upload of the governing document

(Name of the organisation)

- Name of the organisation (checked automatically)
- Whether the organisation is known by any other name
- Whether the name uses a language other than English
- Whether the name uses any restricted words

(Structure and purposes)

- Date on which the articles of association took effect
- The organisation's objectives

(Income)

- Total annual income
- Upload of proof of income (most recent bank statement)

(WHAT)

- Activities (choose from *2)

(HOW)

- Methods of operation (choose from *3)

(WHO)

- Beneficiary groups (choose from *4)

(WHERE)

- Area of operation (choose from *5)
- If an area outside the country is selected, the countries of operation must also be registered

(Achieving the purposes)

- How the purposes will be achieved
- Upload of a business plan (optional)

(Benefit)

- The public benefit that the organisation's purposes will bring
- Upload of documents relating to the above (optional)
- Whether the beneficiaries are limited to a specific group (choose from *6)
 - If the beneficiaries are limited to a specific group:
 - Type of beneficiaries (choose from *7)
 - Reasons for limiting the beneficiaries

(Ensuring that the purposes serve the public benefit)

- Criteria used by the trustees in making decisions on running the organisation
- Upload of documents relating to the above (optional)

(Grant-making)

- Whether the organisation is a grant-making foundation
 - If it is a grant-making foundation:
 - Criteria for selecting grant recipients
 - Upload of rules or other documents on the selection criteria (optional)

(Membership)

- Whether people must become members in order to receive services
 - If membership is required:
 - The benefits members receive
 - Why the benefits are available only to members
 - Membership eligibility
 - Whether there is a limit on the number of members
 - If the number of members is limited:
 - The reasons for the limit and how places are allocated
 - Upload of membership rules (optional)

(Provision of services or facilities)

- Whether the organisation provides public facilities or services
 - If it provides facilities or services:
 - Description of the facilities or services
 - When the general public can use the facilities or services
 - Whether there are restrictions on who can use the facilities or services
 - If there are restrictions:
 - Reasons for the restrictions

(Charges)

- Whether there is a charge for membership or for the use of facilities or services
 - If there is a charge:
 - The facilities and services that are charged for, and their prices
 - Whether prices are set at a level that people in poverty can afford

(International development – organisations operating abroad only)

- The needs the organisation intends to address overseas
- How the organisation will address those needs
- Whether the organisation has local partner organisations
 - If it has partner organisations:
 - Names of the partner organisations and how they were selected
 - Contracts or agreements with the partner organisations
 - How the partner organisations are managed
- Whether the organisation runs its own projects
 - If it runs its own projects:
 - How its own projects are selected and funded
 - How local staff are selected and how risks are managed

(Assets)

- Whether the organisation uses land or property
 - If it uses land or property:
 - Whether it owns the land or property
 - If it owns the land or property:
 - How the land or property is used
 - If it does not own the land or property:
 - Whether it uses property owned by trustees or other connected persons
 - If the property is owned by trustees or other connected persons:
 - Details of the owner
 - Terms of the agreement for the property
 - If the property is not owned by trustees or other connected persons:
 - The relationship between the owner and the organisation
 - The basis on which the organisation uses the property
 - Whether there is a lease or a formal agreement

(Applicant's contact details)

- Applicant's position
- Type of applicant (individual or organisation)
 - If an individual:
 - Title
 - Name
 - Date of birth
 - If an organisation:
 - Name of the organisation
- Postcode
- Address
- Telephone number
- Email address

(Organisation's contact)

- Position of the organisation's contact person
- Type of contact (individual or organisation)
 - If an individual:
 - Title
 - Name
 - Suffix (optional)
 - Name to be published (optional)
 - Date of birth
 - If an organisation:
 - Name of the organisation
- Postcode
- Address
- Telephone number
- Email address

(Details of the new organisation)

- Postcode
- Address
- Organisation's website (optional)
- Public email address (optional)
- Email address
- Whether the above address is the organisation's main base
 - If it is not the main base:
 - Postcode
 - Address
 - Reason why the registered address is not the address of the main base

(Other regulators)

- Whether the organisation is registered with any other body (choose from *8)
- Whether the organisation has a Gift Aid number
 - If it has a Gift Aid number:
 - Gift Aid number

(Income and bank details)

- Upload of proof of income (most recent bank statement)
- Estimated total annual income
- Income received from the start of the current financial year to date
- Whether the organisation has a bank account
 - If it has a bank account:
 - Type of account (bank or building society)
 - Account details

(Funding)

- End date of the next financial year
- Means of raising funds (choose from *9)
- Whether the organisation intends to register for tax reliefs other than Gift Aid
 - If it intends to register:
 - Details
- Whether the organisation intends to hold any of its funds or assets in overseas investment companies or trusts
 - If it intends to do so:
 - Details

(Employment)

- Whether the organisation intends to employ any trustees or similar persons
 - If it intends to do so:
 - Details of the persons to be employed (name, type of employment, remuneration, relationship to the trustees, founders, etc.)
 - Upload of the minutes of the meeting at which the employment was decided

(Goods and services)

- Whether goods or services will be bought from trustees or founders
 - If goods or services will be bought from them:
 - Supplier details (name of the trustee, goods or services, payment, relationship)
 - Upload of the minutes of the trustees' meeting, etc.

(Other private benefit)

- Whether there are individuals or organisations with close connections to the organisation
 - If there are such connections:
 - Connected persons (name, nature of the private benefit, relationship)

(Connections)

- Whether the organisation has links with organisations that are not charities

- If it has such links:
- Working relationship with the non-charitable organisation
- How the work of the two organisations complements each other
- How work and roles are divided between the two
- Explanation of how the organisation maintains its independence
- Upload of further details (optional)

(Operational risks)

- Whether the organisation works with children or vulnerable people

(Number of trustees)

- Number of trustees
- Minimum number of trustees required under the articles of association

(Declaration)

- Upload of other documents (optional)
- Whether there is anything the Commission should take into account
 - If there is:
 - Details
- Declaration (tick box)

*1 Contents of the governing document

Section	What it needs to contain
Name	Your charity's name and (in the case of a trust or an unincorporated association) power to amend the name
Objects	What your charity is set up to achieve (its purposes must all be charitable for the public benefit)
Powers	What the trustees can do to carry out its purposes (for example, raising funds, buying and selling property, borrowing money, working with other organisations)
Charity trustees	How many trustees there are, who can be a trustee, how they are appointed, how long they can hold office and if they can be reappointed
Charity meetings and voting	How many meetings are needed, how they are arranged, how a chair is appointed, how votes are made and counted (including minimum numbers for this)
Membership (if applicable)	Who can be a member, age restrictions, ending someone's membership, how membership meetings are called
Financial	How the charity meets its legal accounting requirements, who controls the bank account, who can sign cheques and if two signatures are needed, other internal financial controls
Trustee benefit	How trustees must not benefit from the charity (excluding reasonable expenses) without commission approval or unless it is authorised in the governing document
Amendments (if applicable)	How the trustees can change the charity's governing document, when commission approval is needed, how amendments are recorded
Dissolution	When the charity can be closed, what happens to any remaining assets (charitable assets can only be used for charitable purposes)

What a governing document needs to contain (GOV.UK)

*2 Activities

- General charitable purposes
- Education/ Training/ Research
- Advancing health or the saving of lives
- Relief of those in need (age, disability, ill-health, financial or other disadvantage)
- The prevention or relief of poverty
- Religion
- Arts/ Culture/ Heritage/ Science
- Amateur sport
- Animal welfare
- Environment/ Conservation
- Citizenship/ Economic or community development/ Employment
- Armed forces/ Emergency service efficiency
- Human rights/ Religious or racial harmony/ Equality or diversity
- Community recreation/ Leisure facilities

- Other charitable purposes

*3 Methods of operation

- Makes grants to individuals
- Makes grants to organisations
- Provides other finance
- Provides buildings/facilities/open space
- Provides services
- Provides education/advocacy/advice/information
- Sponsors or undertakes research
- Acts as an umbrella or resource body
- Other

*4 Beneficiary groups

- Children/ Young people
- Elderly/ Old people
- People with disabilities
- People of a particular ethnic or racial origin
- Other charities or voluntary bodies
- Other defined groups
- The general public/ Mankind
- People living in a specified geographical area
- Members of a particular profession
- Employees of a named employer
- Named individuals
- Other

*5 Area of operation

- Throughout England
- Throughout Wales
- Throughout England & Wales
- Specific areas in England & Wales
- Outside England & Wales

*6 Beneficiaries

- Available to everyone
- Specific section of the public

*7 Type of beneficiaries (if 'Specific section of the public' is selected in *5, choose from the following)

- People living in a particular geographical area
- Members of the organisation
- Other section of the public
- People defined by age
- People defined by disability
- People defined by gender reassignment

- People defined by marriage and civil partnership
- People defined by pregnancy and maternity
- People defined by race
- People defined by religion or belief
- People defined by sex
- People defined by sexual orientation

***8 Other regulators**

- Ofsted
- Care Quality Commission
- Financial Conduct Authority
- Home and Communities Agency
- Care and Social Inspectorate Wales (CSSIW)
- HM Inspectorate of Education and Training in Wales
- Welsh Government (Social Landlords and Housing)
- Healthcare Inspectorate Wales (HIW)

***9 Means of raising funds**

- Public donations
- Legacies
- Other trading activities
- Investments
- Grants
- Charging for services
- Corporate donors
- Commercial sponsor
- Working with professional fundraising consultants
- Loans from any source
- Funding from interest and return on endowments
- Sales of assets owned by the organization
- Other

4. Application for tax-exemption registration

Documents required for registration

- Bank account details
- Company registration (registration number)
- Registration number (if registered with the Charity Commission)
- The organisation's objectives
- Governing document

Contents of the application form

(Eligibility)

- Whether the organisation was established for charitable purposes only

- Whether the organisation has an account with a UK bank, credit union or similar institution
- Whether the organisation is based in the UK, the EU, Norway, Liechtenstein or Iceland

Registration details

(Contact details)

- Name of the organisation
- Alternative name or popular name (optional)
- Telephone number
- Mobile telephone number (optional)
- Email address (optional)
- Website address (optional)

(Address)

- Office address
- Country in which the office is located (if there is no UK address)

(Correspondence address)

- Whether the correspondence address differs from the current address
 - If it differs:
 - Correspondence address
 - Country in which the office is located (if there is no UK address)

(Regulator of the organisation)

- Name of the regulator and registration number (Charity Commission for England and Wales, Office of the Scottish Charity Regulator, Charity Commission for Northern Ireland, Other)
 - If there is no regulator:
 - Reason for having no regulator *1
 - If 'Other' is selected:
 - Reason for not being registered

(Governing document)

- Type of governing document at establishment (trust deed for a charitable trust, articles of association for a company limited by guarantee, constitution for an unincorporated association, etc.) *2
 - If 'Other' is selected:
 - Name of the governing document
- Date on which the governing document came into effect
- Whether the governing document has been approved by a national body, a parent body or a regulator
 - If the governing document has been amended, details of the amendments (optional)

(Operations and funding)

- Bank account
 - If there is no bank account:
 - Expected annual income for the current year
 - Income actually received so far in the current year
- Whether the organisation has bank statements for the past three months

- If there are no statements:
 - Reason for not having statements
- Financial year-end date
- Future methods of raising funds *3
- Where the organisation operates *4

(Activities)

- Activities
- Purposes *5
 - If 'Other' is selected:
 - Other purposes
- How the benefits are returned to the general public

(Organisation's bank account)

- Account name
- Account number
- Sort code
- Building society roll or reference number (optional)

(Number of authorised officials)

- Number of authorised officials

(Details of authorised officials)

- Title
- Name
- Date of birth
- Position in the organisation
- Telephone number
- Mobile telephone number (optional)
- Email address (optional)
- Address
- Postcode (UK residents only)
- Country of residence (if living abroad)
- Whether the person has changed address in the past 12 years
 - If the address has changed:
 - Previous address
 - Postcode (UK residents only)
- National Insurance status
 - If registered for National Insurance:
 - National Insurance number
 - If not registered:
 - ID card or passport number
 - Country of issue
 - Expiry date

(Other officials running the organisation (responsible persons))

- Other officials running the organisation (responsible persons) (at least two required)

(Details of other official No. 1)

- Title
- Name
- Date of birth
- Position in the organisation
- Telephone number
- Mobile telephone number (optional)
- Email address (optional)
- Address
- Postcode (UK residents only)
- Country of residence (if living abroad)
- Whether the person has changed address in the past 12 years
 - If the address has changed:
 - Previous address
 - Postcode (UK residents only)
- National Insurance status
 - If registered for National Insurance:
 - National Insurance number
 - If not registered:
 - ID card or passport number
 - Country of issue
 - Expiry date

(Details of other official No. 2)

- Title
- Name
- Date of birth
- Position in the organisation
- Telephone number
- Mobile telephone number (optional)
- Email address (optional)
- Address
- Postcode (UK residents only)
- Country of residence (if living abroad)
- Whether the person has changed address in the past 12 years
 - If the address has changed:
 - Previous address
 - Postcode (UK residents only)
- National Insurance status
 - If registered for National Insurance:

- National Insurance number
- If not registered:
- ID card or passport number
- Country of issue
- Expiry date

(Appointment of a nominee)

- Whether the organisation wishes to appoint an outside person to act on its behalf in Gift Aid and other procedures

(Confirmation)

- Declaration (tick box)

***1 Reasons for having no regulator**

- Established in England and / or Wales and under gross income threshold
- Parochial Church Councils under gross income threshold
- Uninformed youth groups
- No regulator in country of establishment
- Exempt or excepted
- Other

***2 Types of governing document**

- Will
- Royal Charter
- Rules or constitution
- Memorandum and articles of association
- Other
- Trust deed

***3 Methods of raising funds (more than one may be selected)**

- Donations
- Fundraising
- Grants
- Membership subscriptions
- Trading income
- Trading subsidiaries
- Investment income
- Other

***4 Where the organisation operates (more than one may be selected)**

- England and Wales
- Scotland
- Northern Ireland
- UK Wide
- Overseas

***5 Purposes**

- Relief of poverty
- Education
- Animal Welfare
- Health or saving of lives
- Citizenship or community development
- Relief of those in need
- Religion
- Amateur sport
- Human rights
- Arts, culture, heritage or science
- Environmental protection or improvement
- Promotion of efficiency in armed forces, police, fire and rescue service

5. Annual return

Legal basis for the annual return

The Charities (Annual Return) Regulations 2017 (in force from 1 January 2018)

Deadline for submitting the annual report

Within 10 months of the end of the financial year

Documents required for the return

- Trustees' annual report
- Statement of financial activities (Income & Expenditure Account)
- Balance sheet
- Cash flow statement

Note: This applies only to charities with a total annual income of £25,000 or more (all CIOs must submit these documents).

Contents of the return**Part A****(Financial year)**

- Financial year

(Income)

- Total income

(Expenditure)

- Total expenditure

(Fundraising)

- Whether the charity carried out fundraising
 - If it carried out fundraising:

- Whether it raised funds with professional fundraisers
- Whether it had an agreement with the professional fundraisers
- Whether it raised funds with commercial participators
- Whether it had an agreement with the commercial participators

(Grant-making)

- If the charity has declared to the Charity Commission that it makes grants, whether that grant-making is in line with the organisation's charitable purposes

(Contract income from government)

- Whether the charity received income from government under contracts
 - If it received such income:
 - Number of contracts
 - Total value of the contracts

(Grants from government)

- Whether the charity received grants from government
 - If it received grants:
 - Number of grants received
 - Total value of the grants received

(Income from overseas)

- Whether the charity received any income from overseas
 - If it received such income:
 - Countries from which the income came
 - Sources of the income (foreign government bodies, local NPOs, unknown sources)
 - Total income from overseas

(Operations and expenditure abroad)

- Whether the charity carried out activities abroad
 - If it carried out activities abroad:
 - Countries in which activities were carried out
 - Expenditure in each country

(Trading subsidiaries)

- Whether the charity has any trading subsidiaries
 - If it has trading subsidiaries:
 - Whether the charity's trustees also serve as directors of the subsidiaries

(Payments to trustees)

- Whether trustees received payments from the charity
 - If they received payments:
 - Type of payment (remuneration as a trustee, payment for services provided, other payments)
- Whether anyone resigned as a trustee and then took up employment with the charity

(Employee benefits)

- Whether any employees received income of £60,000 or more
 - If any employees received such income:
 - Number of employees in each of the following income bands:
 - £60,000–£70,000
 - £70,001–£80,000
 - £80,001–£90,000
 - £90,001–£100,000
 - £100,001–£110,000
 - £110,001–£120,000
 - £120,001–£130,000
 - £130,001–£140,000
 - £140,001–£150,000
 - £150,001–£200,000
 - £200,001–£250,000
 - £250,001–£300,000
 - £300,001–£350,000
 - £350,001–£400,000
 - £400,001–£450,000
 - £450,001–£500,000
- Details of the organisation's evaluation (assessment) of the pay of its highest-paid employees

(Volunteers)

- Total number of volunteers (excluding trustees)

(Financial controls)

- Whether the financial controls have been reviewed

(Safeguarding)

- If the charity provides services to children or vulnerable people, whether it carries out DBS checks on trustees, staff and volunteers as a safeguarding measure

(Annual report and accounts of CIOs)

- For CIOs, upload of the trustees' annual report and accounts (not required for charities other than CIOs)

(Declaration)

- Position
- Name
- Role
- Telephone number
- Email address

Part B

(Income from overseas)

- For charities with total income of £25,000 or less, whether they received payments from foreign organisations other than NPOs

- Whether they received payments as donations from individuals abroad
- For charities with total income of £25,000 or more, whether they received payments from foreign organisations other than NPOs
- Whether they received payments as donations from individuals abroad

(Operations and expenditure overseas)

- If the charity operates overseas, whether it transferred funds other than through regulated banks
- If it has transferred funds, the methods used (cash couriers, NPOs, money service businesses, informal value transfer systems, online transfers outside regulated banks, other methods)
- Whether financial controls were applied to the funds transferred
- Whether the trustees ensure rigorous risk management of financial controls and operations overseas

Part C**(Serious incidents)**

- Whether there were any serious incidents during the financial year that have not been reported to the Charity Commission

(Annual report and accounts)

- Upload of the trustees' annual report and accounts
- Whether the accounts have been subject to external scrutiny

Part D**(Accounting basis)**

- Whether the financial information in the annual return is based on the charity's own accounts or on consolidated accounts

(Income and donations)

- Total income
- Breakdown of the charity's income by the following sources:
 - Donations and legacies
 - Trading
 - Investments
 - Charitable activities
 - Other
- Breakdown of 'donations and legacies' into the following:
 - Donations and legacies excluding endowments
 - Endowments

(Expenditure)

- Total expenditure
- Breakdown of expenditure into the following:
 - Raising funds
 - Investment management
 - Charitable activities
 - Governance costs

- Other
- Of the expenditure on 'charitable activities', details of grants to other institutions

(Other gains and losses)

- Revaluation of fixed assets
- Actuarial gains and losses on defined benefit pension schemes
- Net gains on investment assets
- Other gains and losses

(Assets and liabilities)

- Details of the values of the following:
 - Total fixed assets
 - Fixed asset investments
 - Total current assets
 - Short-term investments
 - Cash
- Details of the values of the following:
 - Current liabilities
 - Long-term liabilities
 - Defined benefit pension scheme assets
- Total net assets

(Funds)

- Details of the values of the following:
 - Endowment funds
 - Restricted funds
 - Unrestricted funds
- Total funds

(Additional information)

- Details of the following:
 - Support costs
 - Depreciation
 - Reserves
 - Total number of employees and average number of employees during the year

Part E

(Interpretation of terms) Omitted.

Note: For the original English text, see The Charities (Annual Return) Regulations 2017.

6. Contents of the trustees' annual report

(Small charities)

- Basic information about the charity
- Summary of the charity's objectives

- Main activities and the degree to which the charity has achieved its objectives

(Large charities)

- Basic information about the charity
- Summary of the charity's objectives
- Main activities and the degree to which the charity has achieved its objectives
- Review of the main activities
- Detailed aims and objectives
- Details of the strategies and activities adopted to achieve the aims and objectives
- Details, with references to supporting material, of the degree to which the aims and objectives set have been achieved

7. Applications for changes

	Unincorporated associations	Charitable companies	CIOs
Apply to	The Charity Commission and HM Revenue & Customs (HMRC)		
Items subject to change	Name of the organisation, governing document, contact details, bank account, legal form, supervising authority, trustees, etc., and activities		
Documents required for the application	Resolution Note: The governing document takes effect 60 days after it is submitted to the CC.	Resolution Governing document (if the governing document is amended) Note: The governing document and the resolution are to be sent to the CC within 15 working days of the resolution.	
Procedure	The charity updates its details (on the website) → internal check by the Charity Commission → change reflected in the register		
Waiting period after application (HMRC)	30 days		

(Reference) Descriptions of charitable purposes (from the Charities Act 2006)

- (1) the prevention or relief of poverty
- (2) the advancement of education
- (3) the advancement of religion
- (4) the advancement of health or the saving of lives
- (5) the advancement of citizenship or community development
- (6) the advancement of the arts, culture, heritage or science
- (7) the advancement of amateur sport
- (8) the advancement of human rights, conflict resolution or reconciliation or the promotion of religious or racial harmony or equality and diversity
- (9) the advancement of environmental protection or improvement
- (10) the relief of those in need by reason of youth, age, ill-health, disability, financial hardship or other disadvantage
- (11) the advancement of animal welfare
- (12) the promotion of the efficiency of the armed forces of the Crown, or of the efficiency of the police, fire and rescue services or ambulance services
- (13) any other purposes within subsection (4) (i.e. other charitable purposes recognised by law)

Appendix 2: CC19 Charity Reserves: Building Resilience

The Japanese edition of this report included, as Appendix 2, a Japanese translation of sections 1 to 6 of the Charity Commission's guidance *Charity reserves: building resilience* (CC19), in the version updated on 14 June 2023, as reference material for Chapter 4. As the guidance is published in English by the Charity Commission, it is not reproduced in this English edition. Readers are referred to the original on GOV.UK:

<https://www.gov.uk/government/publications/charity-reserves-building-resilience-cc19>

The guidance has been revised since the Japanese edition was published. At the time this English edition was prepared, it had last been updated on 16 September 2026, to reflect changes to the Commission's guidance on charity accounts. Readers should therefore refer to the current version on GOV.UK.

Structure of the guidance

Section	Contents
1. Introduction	1.1 What is this guidance about? 1.2 Must and should: what the Commission means
2. Key messages for trustees	–
3. Understanding reserves and the need for a reserves policy	3.1 What are reserves? 3.2 Why is a reserves policy important? 3.3 How should a reserves policy be developed? 3.4 What level or range of reserves is required? 3.5 What steps should trustees take to maintain and monitor reserves at the target level?
4. Explaining reserves in the annual report	4.1 Explaining the charity's reserves policy in its annual report 4.2 The charity has no reserves or has excess reserves
5. Other questions about reserves	5.1 Can a charity invest its reserves? 5.2 What is the legal basis for holding and reporting reserves? 5.3 Can trustees accumulate income funds? 5.4 What are the tax issues involved in holding reserves? 5.5 Fundraising and applying for grants or contracts if a charity has reserves
6. Technical terms used in this guidance	–
Annexes 1 and 2	A simple approach to developing a reserves policy (Annex 1); an integrated approach for charities with more complex activities and structures (Annex 2)

- Section headings as given in the current version on GOV.UK. The Japanese edition translated sections 1 to 6; the annexes were not translated.

Key points of the guidance

- Reserves are that part of a charity's unrestricted funds that is freely available to spend on any of its purposes. Tangible fixed assets used for the charity's work, social investments, designated funds set aside for essential future spending, and commitments not recognised as liabilities are excluded. Restricted funds fall outside the definition, although their nature and amount can affect the reserves policy.
- The Commission expects trustees to develop, publish, implement and monitor a reserves policy appropriate to their charity, as part of their legal duties to act in the interests of the charity and its beneficiaries, to safeguard and manage its assets, to act with reasonable care and skill, and to be accountable.

- The policy should justify and clearly explain why reserves are, or are not, held; plan for maintaining the main services provided to beneficiaries; reflect the risks in the charity's business model, spending plans, potential liabilities and financial forecasts; and address the risk of unplanned closure, particularly for vulnerable beneficiaries, staff and volunteers. It should be published even where this is not a legal requirement, and should explain the purpose and timing of the use of reserves specifically, rather than in standard wording.
- There is no single level, or even range, of reserves that is right for all charities. The target level or range set by the trustees should reflect the charity's particular circumstances, based on forecasts of income and expenditure and an assessment of the risk that income will fall short.
- Trustees should review the reserves policy and the level of reserves actually held regularly, and monitor reserves throughout the year, so that excess reserves or an unexpectedly rapid fall in reserves are identified promptly and the causes of any significant difference from the target are investigated.
- The Charities SORP requires a charity's trustees' annual report to explain its reserves policy; a charity that has no reserves policy must state this fact in its annual report.

Recent Developments in the UK Charity Sector

Research Report (English edition)

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This is an English translation of the report 「英国におけるチャリティセクターの最新動向」, published in Japanese by JACO on 1 November 2024. The information in this report is as at the date of the Japanese edition. In this edition, Appendix 2 (a Japanese translation of the Charity Commission's guidance CC19) is replaced by a guide to the original English text.

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