DSC consultation response

SORP Exposure Draft Invitation to Comment

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Jay Kennedy
Director of Policy and Research
Directory of Social Change
1st Floor
10 Queen Street Place
London
EC4R 1BE
jkennedy@dsc.org.uk

directory of social change

1. Introduction

The Statement of Recommended Practice, or SORP, translates internationally agreed accounting standards into rules and guidance that inform the preparation of charity reports and accounts. The SORP is vitally important for charity transparency and effective regulation, but it has not been refreshed for some years.

The 'SORP-making body', comprised of the charity regulators, is consulting on a new version of the SORP which closes on 20 June. The new version of the new SORP is expected to be finalised by 'Autumn', with the changes in effect from January 2026. Although there was ample time given for the consultation, the implementation period doesn't provide much advance notice for charity trustees, finance teams and accountants.

Many of the changes are about detailed accounting rules derived from what's known as FRS 102, which auditors should be on top of and trustees will take professional advice about. However the most potentially impactful changes for the widest number of charities involve the introduction of a tiered system for this SORP, which introduces additional reporting requirements that become more complex in line with increasing levels of charity income:

- **Tier 1** – charities applying accruals accounts with gross income of not more than £500,000
- **Tier 2** – charities with gross income above the Tier 1 threshold but with gross income of not more than £15m
- **Tier 3** – all charities with a gross income above the Tier 2 threshold (i.e. above £15m)

There is a proportionate approach to the amount and type of information trustees will be required to include in their reports as the tiers increase, and they build upon each other – so, Tier 2 charities need to comply with Tier 1 requirements, and Tier 3 charities need to comply with Tier 1 and 2 requirements, and so on.

The smallest charities would still able to use simpler receipts and payments accounting and would be exempt from these requirements, unless they are registered companies or required to produce accruals accounts by their governing document. The new reporting requirements mean that from 2026 trustees will need to provide information in their charity's annual report and accounts about:

- **Volunteering** – under 'Objectives and Activities' charities *must* include an explanation to help the user to understand the scale and nature of the activities undertaken by volunteers and the input from volunteers.

- **Impact** – under 'Achievements and Performance' charities *must* contain a summary of the main achievements of the charity. For Tiers 2 and 3, they *must* explain the impact the charity is making and *must* consider the long-term effect of its activities on individual beneficiaries and on society as a whole. This *should* include a summary of measures or indicators to measure performance, and information on outcomes.

- **Sustainability** – under 'Sustainability', For Tier 1, Trustees are *encouraged to explain* in the report how the charity is responding to and managing environmental, governance and social matters. For Tier 3, the wording is tightened to say '*must provide a summary'* and that reporting may include details of social opportunity, privacy and data security, board diversity and business ethics.

Appendix 4 of the invitation to comment documents states that "the SORP-making body have sought to develop the requirements of the SORP proportionately for smaller charities" and this is right and to be applauded. However they also say that:

> *"The Exposure Draft SORP proposes to add requirements for information to be included within the Trustees' Annual Report for all charities, but* ***it is expected that this information*** **[on the new reporting categories above]** ***is already available to the charity trustees in governing the charity appropriately.*** *The SORP-making body therefore considers the reporting requirements to be proportionate, taking into account all relevant factors."*

DSC would question this assumption for several reasons. Firstly, while charities of any size should be able to identify and describe the difference they make and the inputs and outputs that lead to that difference, the question of determining 'impact' – especially measuring it – is much more methodologically complex, challenging and costly. The 'already available information' necessary to do this may not in fact be available at all, but much depends on how rigorous the reporting expectations are. In this sense, the impact reporting requirement as proposed would be particularly problematic for the proposed Tier 2, which would start from a charity of just above £500,000 income (which is a quite small charity).

Secondly, due to the short period between the finalisation of the new SORP and its introduction, it may prove difficult for charities who have been unaware of the changes (of which there will be many thousands) to retrospectively capture relevant data for the preceding year on impact and sustainability in particular.

2. DSC's principle of responsible regulation

DSC believes in 'Responsible Regulation' of charities – that the regulation of charities needs to be 'proportionate, appropriate and enabling'. The regulatory burden on trustees is increasing all the time and this threatens the current and future supply of trustees, without which the sector can't function. It's therefore critical that policy-makers take a proportionate approach and consider ways to simplify or reduce the negative impacts of regulation wherever possible if it doesn't compromise the public interest.

There is a balance to be struck between proportionality and the quality and transparency of information that charity trustees are required to provide to the regulator and the public. The proposed tiered system in the SORP exposure draft in principle adopts a proportionate approach which is good. However, the new draft also introduces enhanced reporting requirements for trustees, some of which are described above. There is a risk that introducing ever more reporting requirements simply increases costs and workload without actually increasing transparency.

Taking the example of the 'public benefit' reporting requirement, which was first introduced in the Charities Act 2006, there were great ambitions for how this would demonstrate the worth of what charities do in the context of their charitable objects. Twenty years later, it seems to have largely become a box-ticking exercise in many trustee reports. The business sector often complains about regulatory overload and different governments have advocated 'one in, one out' rules for adding new regulations. Charity regulators need to consider this principle too – otherwise the regulatory burden on trustees (and the cost) only increases. When something is added, what can be taken away or is no longer needed?

Even recognising the new proportionate approach and the fact that the smallest charities won't necessarily have to apply the SORP, the exposure draft is skewed towards the capacities and perspectives of larger professionally-resourced charities who will have access to professional help. The consultation feedback will also likely be skewed towards the perspectives of those types of charities which have the capacity and knowledge to be able to respond. Therefore there is a risk that the final version of the SORP won't sufficiently accommodate the operational realities of the vast majority of UK charities which have few staff and rely on volunteers, and for which any increased cost in producing their annual reports and accounts will have a disproportionate impact.

With the best of intentions, the proposed reporting requirements on impact and sustainability could add to the regulatory burden on trustees without a demonstrable or proportionate benefit. In the absence of clear guidance about what these things mean, examples of what good practice looks like, and accessible help for trustees, they risk becoming box ticking exercises that don't enhance transparency. Where will that guidance, good practice and help come from, especially at such short notice, and who will pay for it?

3. Consultation process and timescale for introduction

Whilst it may have been development for several years, the timescale for introducing and then implementing the new SORP is insufficient bearing in mind the increased complexity that it will bring to charity reports and accounts, even considering the new tiered system. From the close of the consultation, there will be just six months until the new SORP will be in effect from January 2026. Further, it is expected that the final version of the exposure draft following the consultation won't be available until Autumn 2025, leaving potentially just a handful of months to get tens of thousands of charities prepared for enhanced requirements for their next reporting year.

Many decision-makers in charities, whether trustees or charity chief executives, will not read the 300-page SORP exposure draft and may be unaware of the proposed changes. They will rely on auditors or other advisors to let them know what is changing – but they won't necessarily communicate regularly with their auditors outside of the time when the accounts and reports are being prepared. Also, trustees may not have had time to gather necessary data on issues like impact or sustainability during the current operating year, prior to the introduction of the new requirements, which they might need for their next annual report and accounts.

The SORP-making body should be well aware that producing charity reports and accounts requires advance planning. The short timeframe is not conducive to doing this well, especially as it's introducing new elements for the first time. It is also likely to mean more time spent producing reports and accounts and hence higher auditor costs, because there will be more information to include, which trustees may not have budgeted for.

We understand that the new requirements related to FRS 102 are largely out of the SORP-making body's control, but the new reporting requirements for the trustees' annual report around impact and sustainability, for example, are within their gift to determine.

4. Summary of recommendations

DSC's responses to the specific questions in the invitation to comment on the SORP exposure draft are outlined in Section 5 below. Our main recommendations are:

- **Move forward the implementation date for the enhanced reporting requirements on sustainability and impact to commence from January 2027.** Contrary to the assertion made in the invitation to comment document, these are not simple questions for trustees to report on and too much change is being introduced without adequate notice. In our understanding these new reporting requirements aren't mandated by FRS 102, so this should be possible.

- **In the absence of a delay, regulators should allow an additional grace period of e.g. two months for filing of 2024/25 reports and accounts** before they are labelled 'late' in red in public registers of charities. This happened during the pandemic, so the regulators should have the power to provide such a grace period.

- **Place impact reporting clearly in the context of the public benefit requirement.** Public benefit and impact may be distinct ideas, but simply adding one requirement on top of another without relating them won't improve reporting or transparency. All kinds of charities, whether financially large or small, deliver public benefit without any robust or cost-efficient way of measuring or proving their impact (for example religious organisations, public parks or community playgrounds, art projects). Any impact reporting should flow from and be in the context of charity law and charitable status, and be clearly linked to the charity's public benefit rather than requiring additional (and expensive) methodologies that aren't related to charity governance.

- **Scrap the sustainability reporting requirement for all but the largest charities, and align the Tier 3 threshold with ESG reporting requirements for UK businesses.** Most charities are SMEs and financially equivalent to either 'small' or 'micro' SMEs, which would be exempt from these requirements in the private sector. In terms of their financial size and environmental impact, they are akin to local shops or small businesses, not multi-national corporations with vast carbon footprints. While it may be a good thing for trustees to think about their charity's sustainability and act accordingly, in most cases it will be ancillary to their core purpose. For most organisations this risks becoming a box-ticking exercise which adds cost and complexity to annual reports but delivers little value in transparency terms.

- **Rethink the income range between the start of Tier 1 and Tier 2, and potentially the starting point for Tier 2**. An income range of £500,000 to £15m for the Tier 2 requirements encompasses far too much difference in the complexity and risk levels of charities within it. Insofar as possible, the tiers need to be aligned with other proposed changes to thresholds in charity law recently under consultation. There is little sense in, for example, moving the audit threshold to £1.5m to account for the effects of inflation, whilst introducing Tier 2 to commence after £500,000. Doing this might also mitigate some of the regulatory burden and negative impacts of introducing additional reporting requirements with insufficient notice.

- **Introduce a streamlined, plain English version of the SORP for the smallest charities** which are largely volunteer-run and led and have few or no paid staff. The proposed requirements of Tier 1 are disproportionately burdensome for applicable charities below the suggested threshold. This version would contain only the most essential requirements, with links and advice about where to get further help and guidance.

5. DSC's responses to the consultation questions

Below we include our responses to the questions from the invitation to comment on the SORP 'exposure draft'. For each question we have reiterated the question from the invitation to comment in bold, followed by DSC's written response. A full pdf version and online version of the survey is available at www.charitysorp.org. We haven't replicated all of the text related to each question here for reasons of space, but you can find them at the SORP website. Where we have been asked to agree or disagree with one of the question prompts, we have marked this in red, and then added additional comments where applicable.

Section 1: Tiered reporting

The Exposure Draft proposes three tiers:

- **Tier 1 - charities with gross income of not more than £500,000 (EUR 500,000)**
- **Tier 2 - charities with gross income above the tier 1 threshold but not more than £15 million (EUR 15 million)**
- **Tier 3 – charities above the tier 2 threshold**

The scope and application module of the Exposure Draft SORP sets out a summary of the tiers, which modules have different requirements for some tiers and which modules are applicable to all tiers.

Question 1: Do you support the move to three tiers?

- **Yes**
- No

DSC supports the introduction of a tiered approach in the new SORP to enhance proportionality, and we appreciate the SORP-making body's efforts to lessen the regulatory burden on smaller organisations. However, there is a need to adjust the income levels for the tiers and an additional tier might be needed to get the best balance.

Question 2: Do you consider that the proposed thresholds have been set at an appropriate monetary level in order to support a proportionate approach to reporting?

- Yes
- **No**
- No opinion

The levels and structure of the tiers need substantial adjustment and improvement. The SORP-making body should rethink the income range for Tier 2, and potentially the starting point for Tier 2. Another tier might need to be added to get the right balance. An income range of £500,000 to £15m for the Tier 2 requirements encompasses far too much difference in the likely capacity, complexity and risk levels of the charities within it.

Insofar as possible, the tiers also need to be aligned with other proposed changes to thresholds in charity law recently under consultation. There is little sense in, for example, moving the audit threshold to £1.5m to account for the effects of inflation, whilst introducing Tier 2 to commence after £500,000. Aligning those thresholds at higher levels of income might also mitigate some of the negative impacts of introducing substantial and additional reporting requirements on the trustees of smaller charities at short notice.

Question 3: Do you agree that the Exposure Draft SORP clearly sets out the proposed reporting requirements for each tier?

- Yes
- **No**
- No opinion

Some of the language is unlikely to work for many kinds of charities. For example, the exposure draft says that for the impact reporting of Tier 2 and 3 charities, they "*must* explain the impact the charity is making and *must* consider the long-term effect of its activities on individual beneficiaries and on society as a whole."

The language about beneficiaries is entirely appropriate but the phrase 'society as a whole' is largely meaningless. In what way? Why? How? For whose benefit? The public benefit of a charity is at the heart of how charities are constitutionally organised and regulated. But public benefit doesn't necessarily equate to making a difference to 'society as a whole'.

The exposure draft rightly notes that a charity's impact needs to be clearly related to its objects and its public benefit. But what's the impact of a church? For whom? There might be all kinds of beneficial impacts, for example feeding people in poverty, providing opportunities for social connection etc. But the core charitable purpose is about practising religion. Apart from numbers of parishioners or time spent being together in the church, there aren't likely to be many sensible measures, and reporting expectations would need to reflect these limitations for many diverse types of charities.

Question 4: Do you agree that charities within the largest income threshold should be referred to as 'tier 3' charities, or should they be referred to as 'tier 1' charities?

- Agree with tier 3
- Disagree – should be referred as tier 1
- **No opinion**

Whichever way the tiering is described, it needs to be consistent.

Question 5: Do you have any additional comments in relation to the proposed tiered reporting structure in the Exposure Draft SORP?

DSC agrees with the tiered approach for the reasons of proportionality. However the timeframe for introducing these changes is insufficient to allow charity boards to adequately prepare. The SORP-making body should move forward the implementation of the enhanced reporting requirements on sustainability and impact to commence from January 2027. These are not simple questions for trustees to answer and too much change is being introduced without adequate notice. In our understanding these new reporting requirements aren't mandated by FRS 102, they come from the SORP-making body, so this should be possible.

Section 2: Trustees Annual Report

Question 6: Do you agree that including prompt questions will help trustees to develop their Trustees' Annual Report?

- **Yes**
- No
- No opinion

As a general principle, including prompt questions should help trustees, as long as these are succinct and guide the preparer to provide the right type and level of information. However, it's not clear to us from the wording of Question 6 which specific questions or prompts are being asked about here, or whether it's about the whole module. Is this talking about all 10 pages of Module 1 which includes many different bulleted points as well as questions? Or is this more specifically about the questions laid out in points 1.25 and 1.28?

Question 7: Do you consider the requirements for impact reporting for each tier to be proportionate?

- Yes
- **No**
- No opinion

See our response to Question 3. Based on the current tiering, we don't believe it is proportionate. Requiring a charity of £500,001 annual income, whose reach will often be within a local community, to report its "long-term effects on society as a whole" doesn't seem proportionate or necessary.

Question 8: Do you consider the requirements for sustainability reporting for each tier to be proportionate?

- Yes
- **No**
- No opinion

In terms of financial size the sustainability reporting requirements are not proportionate with what is required of the private sector. DSC's understanding is that ESG reporting requirements largely begin with companies that have over 250 employees and tens of millions in turnover or assets. However, the turnover and staffing of most charities is the equivalent of Small and Medium-sized Entities (SMEs) which are exempt from such reporting requirements, and more specifically 'Small' or 'Micro' SMEs. They are like small shops or small local businesses in terms of their financial size and environmental impact, not multi-national corporations with vast carbon footprints.

The exposure draft notes that the public have higher expectations of charity transparency. But it's already the case that charity reports and accounts offer far more information to the reader than for a company of equivalent size. While it may be a good and necessary thing for trustees to think about their charity's sustainability and act accordingly, in most cases it will be ancillary to their charitable purpose. For most organisations this risks becoming a box-ticking exercise which adds cost but delivers little value in transparency terms.

The SORP-making body should scrap the sustainability reporting requirement for all but the largest charities, and align Tier 3 (or whatever the highest tier is going to be) with the thresholds that exist for businesses in the UK – for example as part of the development of the UK Sustainability Reporting Standards.

Question 9: Do you consider the disclosures for volunteers to be proportionate?

- **Yes**
- No
- No opinion

The proposed disclosures are proportionate and this information is also very important for charities to communicate. The contribution of volunteers in the charity sector, including that of voluntary trustees, is fundamental to how it operates and to the value charities bring to society. Hence requiring trustees to report on the role volunteers is appropriate to the group of organisations being regulated. It is right not to mandate any financial calculations of the value because of the methodological pitfalls but to allow charities to communicate what their volunteers bring in their own way.

Question 10: Do you consider the explanation of reserves in the glossary helpful?

- **Yes**
- No
- No opinion

Generally yes, but it seems odd that the description doesn't seem to mention the words 'cash' or 'liquidity' in the examples. Perhaps this is because it needs to reflect official accounting or FRS language, but it might help illustrate the different types of reserves for the layperson. Especially because the lack of cash or of accessible liquid reserves are often crucial questions in terms of a charity's solvency, going concern, ability to access finance or maintain bank accounts, and so on.

Question 11: Do you consider the disclosures for reserves are proportionate?

- **Yes**
- No
- No opinion

Question 12: Do you consider the requirement for Tier 1 charities to provide a summary of their plans for the future is proportionate?

- **Yes**
- No
- No opinion

Question 13: Do you consider that the additional disclosure will help to explain the treatment of legacies in the accounts?

- Yes
- No
- **No opinion**

Question 14: Do you have any other comments on module 1 and the proposals for the Trustees' Annual Report?

With the best of intentions, unless the tiers are substantially adjusted as we have proposed above, DSC believes that the proposed reporting requirements on impact and sustainability could add to the regulatory burden on trustees without a demonstrable or proportionate benefit in terms of transparency and public trust. In the absence of clear guidance about what these things mean, examples of what good practice looks like, and accessible help for trustees, they risk becoming box-ticking exercises which do little to enhance transparency.

Section 3: Statement of Financial Activities

Question 15: Is the example table helpful?

- Yes
- No
- **No opinion**

Question 16: Do you have any other comments on module 4?

No.

Section 4: Recognition of income

Question 17: Does the module explain the relevant requirements of the five-step model in FRS 102 in a clear and understandable way?

- Yes
- **No**
- No opinion

Question 18: Do you find the module easy to navigate as drafted?

- Yes
- **No**
- No opinion

Question 19: Do you consider that the guidance on exchange and non-exchange transactions should be set out in separate modules of the SORP rather than separate sections of the same module?

- Yes
- No
- **No opinion**

Question 20: In the Exposure Draft SORP, all the disclosure requirements are listed at the end of the module. Would it be clearer instead to set out the relevant disclosures at the end of each section within the module?

- Yes
- No
- **No opinion**

Question 21: Do you consider this clarification a helpful addition to the SORP?

- Yes
- No
- **No opinion**

Question 22: Does the module set out the accounting requirements for legacy income clearly?

- Yes
- No
- **No opinion**

Question 23: Accounting for legacies can be a complex area for charities to navigate. Is there a need for further guidance on this topic outside of the SORP?

- **Yes**
- No
- No opinion

Section 5: Lease accounting

Question 25: Do you find the module easy to navigate as drafted?

- Yes
- **No**
- No opinion

Question 26: Does the module explain the relevant requirements of FRS 102 in a clear and understandable way? Please select all options that apply.

- Yes
- No - do not understand a specific section
- No - do not understand recognition exemptions
- No - do not understand disclosure requirements
- No - do not understand time value of money (free text box will be provided for more information to be added)
- No opinion

Question 27: Does the section (paragraphs 10B.68 to 10B.84) on arrangements that are significantly below market value provide clarity on how to account for such arrangements?

- Yes
- No
- **No opinion**

Question 28: Are the additional disclosure requirements set out in paragraphs 10B.95 and 10B.129 reasonable for charities with such arrangements?

- Yes
- No
- **No opinion**

Question 29 - please provide any other comments you have on module 10B:

This section is nearly impossible to understand for the layperson – which describes the vast majority of trustees without an accounting or financial background. In the absence of a simplified summary of what the changes to lease accounting are, why they are being brought in, and how charities are likely to be affected, trustees will be reliant on auditors or independent advisors to recommend the best course of action for their charity.

Section 6: Statement of cash flows

Question 30: Do you agree with the proposal in the Exposure Draft SORP that only tier 1 and tier 2 charities, that do not meet the small entity threshold, and all tier 3 charities are required to prepare a statement of cash flows?

- **Yes**
- No, this should be required of all tier 2 and 3 charities
- No, this should be required of all charities
- No opinion

Question 31: Do you have any other comments on module 14?

As we noted in our response to Question 10, cash flow is critically important in terms of management accounting, but can fluctuate very quickly. The usefulness of its representation in a charity's annual report and accounts therefore will be limited because this only provides a snapshot in time, or at best a forecast, which is just a prediction that could easily change. That point in time or forecast may not represent the charity's long-term viability or necessarily indicate its overall financial health to the reader. Much depends also on the type of income the charity receives, how dependable it is, and how diversified it is. It is important to recognise that any statement of the charity's cash position in the accounts cannot be relied upon on its own as a guarantee of the charity's financial health.

Section 7: Total return

Question 32: Do you agree that the additional disclosures are helpful?

- Yes
- No
- **No opinion**

Question 33: Do you agree that the additional disclosures are proportionate?

- Yes
- No
- **No opinion**

Section 8: Social Investment

Question 35: Do you agree with the new approach to using the generic term 'social investments' instead of referring to 'programme related' and 'mixed motive' investments?

- Yes
- No
- **No opinion**

It is probably best to rationalise these terms, but there might need to be a subsequent process to review related guidance and align terms with what is used in the new SORP.

Question 36: Do you agree that the simplification of how gains and losses on social investments are reported is beneficial?

- Yes
- No
- **No opinion**

Question 37: Is the Exposure Draft SORP clear on the requirements for comparative figures and disclosures?

- Yes
- No
- **No opinion**

Question 38: Do you think there is a need for further guidance on the treatment of comparative figures and disclosures in this area?

- Yes
- No
- No opinion

Section 9: Smaller charities

Question 40: Do you agree that the drafting, structure and proposals in the Exposure Draft SORP support the needs of smaller charities whilst addressing the needs of users of charity reports and accounts?

- Yes
- **No**
- No opinion

Please provide any reasons for your answer here, if you wish to do so:

While the tiered approach reflects a welcome improvement in terms of proportionality, the tiers as currently constructed do not sufficiently support the needs of smaller charities in key areas, particularly related to impact and sustainability reporting, which we have outlined above. There is a risk that increasing the amount and complexity of reporting requirements makes charity trustees ever-more reliant on external professional help which puts the smallest organisations at a disadvantage.

The SORP-making body should introduce a streamlined, plain English version of the SORP for the smallest charities which are largely volunteer-run and led and have few or no paid staff. The proposed requirements of Tier 1 are disproportionately burdensome for applicable charities below the suggested threshold. This version would contain only the most essential requirements, with links and advice about where to get further help and guidance.

Question 41: Do you agree with the SORP-making body's decision to continue to disallow the application of Section 1A?

- Yes
- No
- **No opinion**

Please provide reasons for your answer or suggestions on how you think Section 1A could be applied differently:

We're not able to comment on why disallowing application of Section 1A is a good or bad idea, or how it could be applied differently.

Section 10: Any other comments

Question 42: Do you have any other comments on the Exposure Draft SORP?

To make the introduction of the new SORP a success, and to provide a proportionate approach that adequately considers the needs of smaller charities, DSC would like to reiterate our recommendations to the SORP-making body:

- Move forward the implementation date for the enhanced reporting requirements on sustainability and impact to commence from January 2027, because of the short time frame.

- In the absence of a delay, regulators should allow an additional grace period of e.g. two months for filing of 2024/25 reports and accounts before they are labelled ‘late’ in red in public registers of charities.

- Place impact reporting clearly in the context of the public benefit requirement. Any impact reporting should flow from and be in the context of charity law and charitable status, and be clearly linked to the charity’s public benefit rather than requiring additional (and expensive) methodologies that aren’t related to charity governance.

- Scrap the sustainability reporting requirement for all but the largest charities, and align the Tier 3 threshold with ESG reporting requirements for UK businesses.

- Rethink the income range between the start of Tier 1 and Tier 2, and potentially the starting point for Tier 2. An income range of £500,000 to £15m for the Tier 2 requirements encompasses far too much difference in the complexity and risk levels of charities within it. Align the tiers with other proposed changes to thresholds in charity law recently under consultation.

- Introduce a streamlined, plain English version of the SORP for the smallest charities which are largely volunteer-run and led and have few or no paid staff.

6. Further information and resources

www.charitysorp.org