

Charity sector development report



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Foreword

The charity sector enters 2026 navigating a landscape defined by both challenge and opportunity. Financial resilience remains at the heart of organisational sustainability, with many charities continuing to balance rising demand against constrained resources. Strengthening this resilience is not simply about surviving the current climate, but building the capacity to adapt, respond, and thrive in an increasingly uncertain world.

At the same time, growing social tensions—whether driven by economic inequality, shifting public sentiment, or global instability—mean that the role of charities as trusted, community-rooted organisations has never been more vital. Understanding these pressures helps leaders make informed choices about where to direct energy, resources, and advocacy.

This year also brings important changes in financial reporting, including the new Charity SORP taking effect for periods beginning in 2026. These updates will reshape how organisations present their financial position, performance, and impact. Clear reporting is not just a compliance exercise; it is fundamental to maintaining transparency, credibility, and the trust of donors, beneficiaries, and partners.

VAT and tax developments continue to present both complexity and opportunity. With shifting rules and thresholds, charities must stay ahead of the curve to avoid unexpected costs and ensure they are making full and efficient use of available reliefs.

Finally, robust systems—finance systems, digital infrastructure, data tools, and internal processes—will underpin the sector's ability to evolve. Investing in the right systems supports better decision-making, improves efficiency, and frees people to focus on mission-critical work. Our 2026 report includes a feature on robust system implementation which can be found on page 28.

This report explores each of these themes in depth, offering insight and practical guidance to help charities strengthen their foundations and navigate the year ahead with confidence.

We hope you find this publication informative and if there are any matters that you would like to discuss further, please do not hesitate to get in touch with your Grant Thornton contacts.



Harriet Taylor-Raine
NFP Technical Manager

Sector risks



Financial Resilience

In September 2025, the Charity Commission published its first ever annual Charity Sector Risk Assessment.¹ In the report, the first key risk that was highlighted for charities was financial resilience. The report begins commending charities on how they “[have shown remarkable resilience in facing up to the challenges that have arisen over recent years](#)” but that “[following the Covid-19 pandemic and national cost of living crisis, many charities reported financial pressures arising from increasing costs, increasing demand and falling donations](#)”. The Charity Commission notes in the report that it has a unique vantage point on the risks that the sector faces as the regulator can draw on a range of data such as information from annual returns, serious incident reports and casework.

The report identifies three primary sources of pressure on charities: rising workforce costs, increasing challenges in securing funding, and growing demand for services. In this article, we will examine the report’s findings in each of these areas and explore them in greater depth.

Workforce costs and inflation

On workforce costs, the Charity Sector Risk Assessment 2025 report says that “[sector engagement has highlighted concern about how increasing employment costs and tax changes will impact charities, particularly those with large numbers of staff or those that are also facing reduced income. Annual return data suggests that larger charities \(with over £500k income per year\) spent 23% more on delivering their charitable aims in 2023 compared to 2019](#)”.

Charities needing to spend more on delivering services is a result of both higher workforce costs and higher inflation generally. The Office for National Statistics, on its inflation and price indices webpage², has revealing time series graphs related to inflation. They show how the Consumer Price Index (CPI) all items rate was over 4%, which is double the Bank of England’s target of 2%, from November 2021 to November 2023 reaching 9.6% at the height of the Covid pandemic in October 2022. Since then, CPI has stayed above 3% and in December 2025 was still 3.4%. The Office for National Statistics also has equally informative time series graphs on UK earnings³. Nominal total pay growth in Britain averaged around 2% for some years before 2015 then rose to an average 3%, and continued to rise, hitting 8.9% in June 2021 with Covid 19, and in 2025 being 5.7% in January and 4.7% in November.

To add to the general wage and cost increases, employers National Insurance increases came into effect from April 2025 from 13.8% to 15%. Costs have therefore increased for a number of years, and as the Charity Commission highlight in the next point, these have not been matched with increased funding and donations.

Challenges in funding

Charities have seen limited changes in the pattern of funding and also that of general giving, and their income has not kept up with the increased costs noted above and the increased demand for services. The Charity Commission assessment report focuses on public funding with data to the end of 2023, and states “[while government funding to the sector through contracts increased overall during the financial year ending 2023 \(from £9.1bn to £10bn\), the average value of contracts received per contracting charity remained broadly static \(from £1.43m to £1.41m\). Many smaller charities, though, are party to much smaller scale contracts for their services, and the average value of contracts awarded to charities with a total income of under £25k dropped by more than 6%, compared to a sector average of around 1% between 2022 and 2023.](#)” Charities’ government funding has either therefore remained static or decreased.

1. [Charity Sector Risk Assessment 2025 - GOV.UK](#)

2. [Inflation and price indices - Office for National Statistics](#)

3. [Earnings and working hours - Office for National Statistics](#)

The Charities Aid Foundation (CAF) produces an annual UK Giving Report and its latest 2025 report⁴ encouragingly states that UK giving continues to increase with the public donating an estimated £15.4bn in 2024, with the figure in the previous report for 2023 being £13.9bn. However, although giving in total has increased, there has been a trend over the years that fewer people are giving, which is unsurprising with the cost-of-living crisis, and that those who can give are giving more. A time chart on the CAF report shows that the proportion of people donating to charity has fallen from 61% in 2016 to 50% in 2024. They found that **“the largest decreases in donors are in the North West, the North East, and London” and that “London is the first region where fewer than half of people give to charity”**.

Increasing demand for services and the cost-of-living crisis

The third area of concern putting pressure on charities the Charity Commission has identified is that **“demand for charity services, particularly those supporting the most vulnerable, continues to rise”**. As a result of the cost-of-living crisis, data shows that more people are turning to charities for help.

The research briefing from 13 January 2026 entitled ‘High cost of living: impact on households’⁵ in the House of Commons Library, for instance, has said that more people are turning to food banks: “Trussell, a food bank charity formerly called the Trussell Trust, reported that between April 2024 and September 2025 they provided 2.9 million emergency food parcels, just below the record high of 3.1 million parcels in 2023/24.” The briefing also reported how more are turning to debt charities: **“Citizens Advice helped 44,513 people with debt advice in November 2025. This was down from 50,869 in January 2025, which was the highest number since the series began in January 2019.”**

The Charity Commission have noted the same increase in demand for charities’ services, especially those delivering services to the public, in their report and state: **“the Commission’s latest research shows that in the last year 9% of the public received food, medical or financial support from charitable organisations, compared to just 3% five years ago”**. This is a stark figure, a threefold increase from five years ago.

Maintaining financial resilience

The combination of increasing demand on charity services, rising costs and potentially more fragile funding for charities means that **“42.6% of charities reported expenditure that exceeded income in their 2023 Annual Return, up from 38.3% in 2022”**. The Risk Assessment includes a cautionary message from the Regulator, urging charities to remain alert to this significant resilience risk and to ensure that appropriate systems, processes, and organisational attitudes are in place to support financial sustainability. The report emphasises that ‘one of the most important things they can do is plan and act on any early warning indicators to help manage finances whilst they still have a range of options.’ Building on this, the Regulator identifies four key actions: three focused on forecasting and financial reporting, and one relating to strategic decision-making:



Ensure you take the time to sufficiently plan your year ahead with income forecasts aligned with operating costs



Regularly review your financial forecasting to determine any variations to cost or revenue expectations to enable early intervention where appropriate



Ensure your financial reporting is fit for purpose, regular and provides the level of detail to enable trustee decision making



Consider if there are opportunities to deliver your charitable purpose more efficiently – for example, through joint ventures, collaborative bids, mergers or a combining of back-office functions with other charities

A further action worth noting—closely connected to the recommendations on forecasting and financial reporting—is the importance of maintaining an effective reserves policy and, as far as practicable, planning and operating in accordance with it. The Charity Commission provides dedicated guidance on this, titled “Charity reserves: building resilience”⁶.

4. www.cafonline.org/insights/research/uk-giving-report

5. [High cost of living: Impact on households - House of Commons Library](#)

6. [Charity reserves: building resilience - GOV.UK](#)

Charities under fire

UK charities are increasingly struggling to operate amid a sharp rise in social division, hostility, and intimidation that is directly limiting their ability to deliver vital services. Recent sector research highlights escalating fear, online hate, and direct targeting of staff and volunteers, with some organisations cancelling events, reducing public visibility, and facing internal tensions driven by heightened polarisation.¹ These pressures layer onto existing financial and operational strains, leaving many charities navigating an environment in which societal conflict is becoming as challenging as funding uncertainty itself.

Charities supporting women, refugees, ethnic minorities, faith groups and vulnerable people are facing a sharp rise in threats, harassment and violence, creating a “culture of fear” within the sector.²

A Climate of Fear Taking Hold

Listening sessions with 46 voluntary organisations revealed a widespread sense of unease among charity staff and volunteers. Participants described a palpable rise in fear as social division intensifies across the UK. **“Participants described a tangible sense of fear that affects the daily lives of staff and volunteers,”** the NCVO report states.

For many workers—particularly those from global majority backgrounds—this fear is not abstract. It is experienced in the form of public hostility, harassment, or targeting connected to the sensitive issues charities often work on, such as migration, racial injustice, gender-based violence, and support for refugees.

A women’s support charity reported that its outreach team began facing verbal abuse when accompanying survivors to appointments. Staff described being shouted at in public, with comments implying they were “encouraging dependency” or “helping the wrong people.” Over time, these experiences led some workers to request remote only roles, reducing the charity’s community presence.

The Rise of Direct Threats and Online Abuse

Charities increasingly find themselves on the receiving end of intimidating emails, social media attacks, and coordinated harassment campaigns. These incidents range from abusive messages to serious threats. The NCVO report notes that **“many described receiving intimidating emails and other forms of harassment,”** forcing some organisations to remove staff names from their websites.

A refugee support organisation received a wave of threatening messages after being mentioned in an inflammatory online forum discussion. Some staff members were named directly, and the organisation responded by temporarily shutting down its public social media profiles.

Forced Invisibility and Cancelled Activities

To reduce risk to staff, volunteers, or service users, some charities have begun scaling back face to face engagement.

The report highlights **“operational disruption and forced invisibility,”** with organisations **“cancelling community events, reducing their online visibility and scaling back public activity because of direct threats.”**

A local LGBTQ+ youth charity cancelled its annual public outreach event after receiving online threats in the weeks prior. Although the event had been an important point of connection for isolated young people, trustees deemed the risk too high without additional security—security the organisation could not afford.

1. <https://www.ncvo.org.uk/news-and-insights/news-index/charities-facing-mission-limiting-hostility-fear-and-intimidation/>

2. <https://www.theguardian.com/society/2025/dec/09/uk-charities-face-culture-of-fear-as-threats-and-violence-surge>

Internal Tensions Amplified by Public Division

Social tensions outside organisations are also fuelling conflict within them. Staff, trustees, and volunteers are increasingly divided over issues such as migration, police relations, or global political conflicts. The NCVO report notes that **“many said they were grappling with conflicting views among staff, trustees and volunteers.”** This internal strain affects decision making, staff morale, and even organisational identity.

Sector Leaders Call for Collective Action

NCVO Chief Executive Kate Lee OBE has emphasised the importance of solidarity during this period of heightened tension, saying:

“By supporting one another, and offering hope where others spread hate, we can protect the space civil society occupies and ensure charities can continue to strengthen.” Participants in the research called for clearer guidance on staff safety, strong peer networks, and sector wide advocacy to counter rising hostility.

Practical Advice for Charities Navigating Rising Social Tensions

Below are evidence informed strategies that charities can adopt to protect their people, strengthen resilience, and maintain mission delivery amid growing societal pressures.

01



Strengthen Staff Safety Policies

- Review and update lone working policies.
- Provide staff with clear procedures for reporting incidents.
- Offer training on handling confrontation, both online and offline.
- Conduct risk assessments before public events or outreach work.

02



Reassess Online Visibility With Care

- Consider removing personal details (e.g., staff emails or full names) from websites where appropriate.
- Use generic inboxes for public queries.
- Develop a protocol for responding to abusive online messages.
- Provide staff training on digital security and doxxing prevention.

03



Establish Internal Dialogue Spaces

- Facilitate structured conversations about sensitive or polarising topics.
- Use trained facilitators or external mediators when needed.
- Develop a shared organisational position on public communications.
- Reinforce codes of conduct around respectful disagreement.

04



Build Supportive Peer Networks

- Join sector-led peer groups for shared learning.
- Partner with nearby organisations to share safety advice or coordinate public messaging.
- Participate in collaborative advocacy efforts to amplify the charity sector's voice.

05



Integrate Scenario Planning Into Governance

- Discuss emerging social risks at board level.
- Embed “social tension impact” assessments into strategic planning.
- Create contingency plans for event cancellations, staff shortages, or online attacks.

Conclusion: Protecting Civil Society's Space

As social division and hostility rise, UK charities are increasingly forced to operate with “forced invisibility,” reduced outreach, and staff working under unprecedented levels of fear. These challenges are no longer peripheral—they threaten the very capacity of the sector to serve communities.

Yet the response from leaders across civil society is clear: through solidarity, practical safety measures, internal care, and collective advocacy, charities can protect both their missions and their people. In the words of Kate Lee OBE, the sector must “offer hope where others spread hate.”

Protecting Charities from Fraud

Financial fraud is a constant and underestimated threat to the UK economy. The appointment of the UK's first Fraud Minister Lord Hanson marked a decisive moment in tackling the increasing threat of fraud.

The publication of the government's Fraud Strategy, which forms part of the government's broader Plan for Change, is still awaited, but is anticipated to enhance protection measures for the public and for businesses against various types of fraud including those faced by charitable organisations. The strategy is expected to include several key criteria for charities including:

- **Collaboration** between government, charities and law enforcement to tackle fraud effectively
- **Data Sharing** between sectors
- **Public Awareness** of the risk of fraud and how this is addressed
- **Economic Impact** balancing the impact with effective fraud prevention measures
- **Artificial Intelligence (AI)** risk of cyber and financial crime

Impact of fraud on charities

Fraud is the most common crime type in England and Wales with over 41% of all crimes estimated to be fraud. Charities are not immune from this and there is an identified rise in fraud cases, an increase of 19% in 2024, which poses a significant risk to charities.

The government's commitment to tackling the threat of fraud is crucial to ensure that charitable organisations can operate effectively and maintain public confidence.

By the implementation of Lord Hanson's strategy, the government will aim to protect charities from fraud and ensure that their vital work in society is continued and not threatened.

Failure to Prevent Fraud

The Failure to Prevent Fraud criminal offence (Section 199) has been in effect since 1 September 2025 and forms part of the Economic Crime and Corporate Transparency Act 2023 (ECCTA). The offence has had far-reaching implications for charities above the 'large organisation' threshold. A charity is considered a 'large organisation' if, in the previous financial year, it meets two of the three thresholds below and includes any subsidiaries.

- Turnover exceeded £36 million;
- Balance sheet totaled more than £18 million; and
- More than 250 employees.

ECCTA legislation also introduced Section 196 Corporate liability for senior managers' conduct. Unlike Section 199 Failure to Prevent Fraud, under the Section 196 offence, a charity can be criminally liable for the actions of a senior manager, and the size of charity is irrelevant.

Examples of Section 196 offences include:

- Fraud or false accounting by a senior officer
- Money laundering offences
- Breaches of financial regulations



Key Learnings To Date

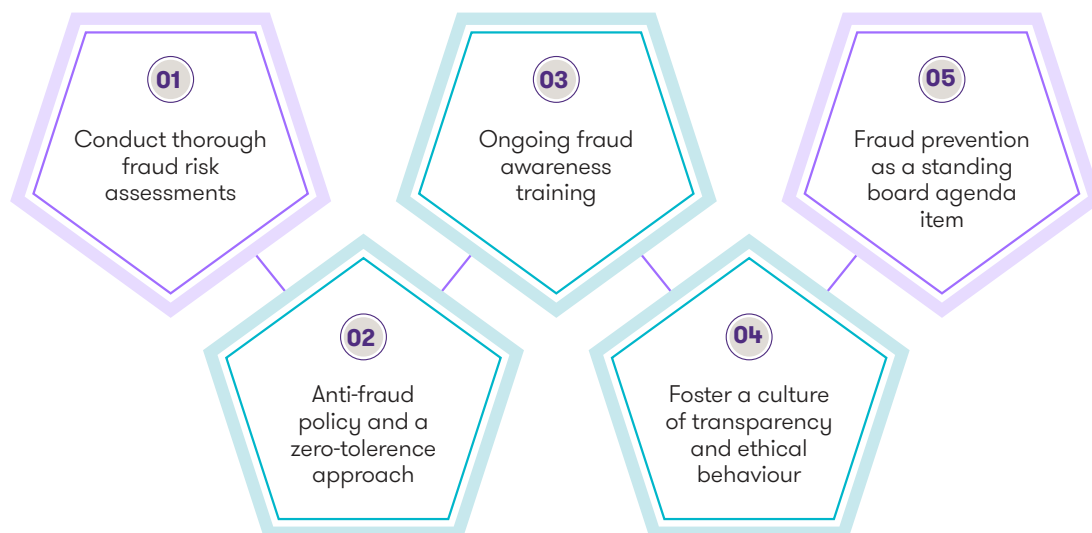
Charities falling within the scope of this offence should have already put in place reasonable and adequate procedures to comply with the legislation.

If it is not already in place, large charities (as defined by the ECCTA), should assess fraud risks and implement fraud prevention measures as a priority and to identify its associates. An anti-fraud policy and response plan should be in place to ensure an embedded anti-fraud culture.

In terms of Section 196 charities should be alert to the conduct of senior officers to ensure organisational accountability to the risk of fraud. Under Section 196, a charity can be criminally liable if a senior manager (which is an intentionally broad definition) commits an offence listed in ECCTA while acting within the scope of their authority, or if they assist in committing an offence. There is no defence for having had reasonable fraud prevention measures in place.

Key learnings for charities are that both Section 196 and Section 199 carry the risk of reputational damage as well as significant, unlimited fines which will reflect the gravity of the offence and the harm caused.

Although the offence of Failure to Prevent Fraud applies only to larger organisations, the principles outlined in UK Home Office guidance represent good practice for any size charity. Recommended practice for smaller charities or unincorporated charities is that robust fraud prevention and an embedded anti-fraud culture is essential, and any charity should consider the points below to ensure compliance.



Outlook & Impact

According to the [BDO and Fraud Advisory Panel's Charity Fraud Report](#) despite increased fraud awareness, just over half (52%) of charities expect fraud risk to increase in 2026. The report shows there is an anticipated increase in charity fraud risk in 2026 with cyber related fraud, including phishing and AI related attacks, being a major area of concern.

Statistics issued by the Fraud Advisory Panel report that, of those charities affected by fraud in 2025, 73% experienced economic loss ranging from £614,000 and £6.2 million. Only 32% of charities were able to recover funds lost as a result of fraud. However, this aligns with the findings that fewer losses were being incurred resulting in less to recover. It was also identified that cases with fraud losses of less than £10,000 accounted for the majority of recoveries (61%). As reported by the Fraud Advisory Panel, the reason is unclear but it would seem that charities with fewer fraud incidents and lower losses are more adept at recovering losses.

Charities should always be mindful that the fraud landscape is ever changing and despite often having limited resources a robust risk management framework should be embedded within the organisation.

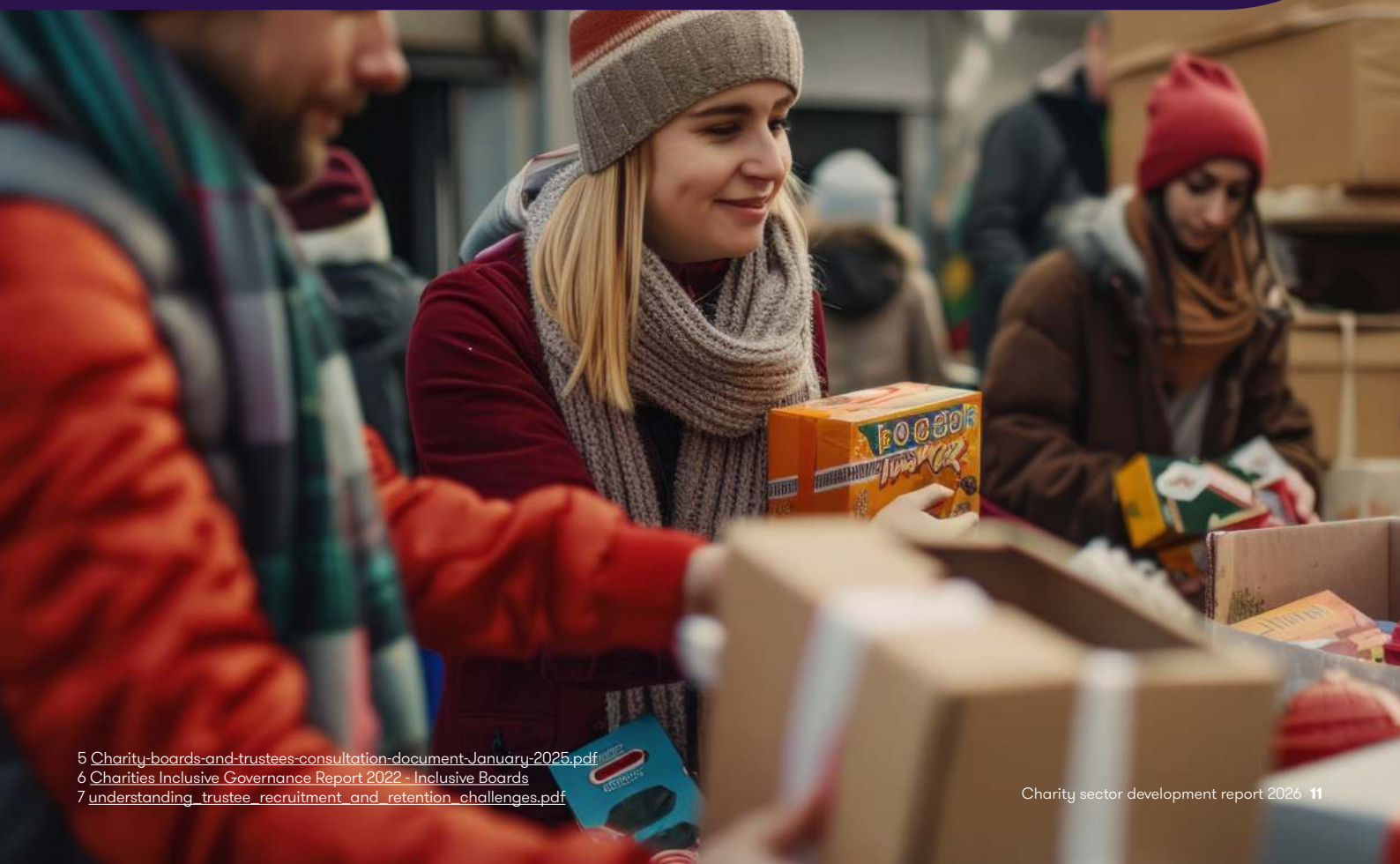
Our Counter Fraud team delivers an annual workshop to the Charity Finance Group members each year which focuses on risks, statistics, and fraud prevention methodologies. Our training also highlights that the impact of fraud on a charity goes beyond financial losses. Other factors include reputational risk, loss of staff, volunteers and donors and an overall impact on morale within the charity.

During the workshop, you will learn about:

- The most effective fraud prevention tools and strategies
- Mitigating the threat of money laundering
- Minimising the threat of AI fraud

This training is ideal for charity professionals who wish to strengthen their knowledge of fraud prevention, risk management, and governance. Whether you're new to the topic or looking to update your skills, this session will provide you with essential tools for tackling fraud-related challenges in your charity.

Charity Fraud training can be booked via this link. [Charity Finance Group | Charities Fraud Training](#)



⁵ [Charity-boards-and-trustees-consultation-document-January-2025.pdf](#)

⁶ [Charities Inclusive Governance Report 2022 - Inclusive Boards](#)

⁷ [understanding_trustee_recruitment_and_retention_challenges.pdf](#)

Safeguarding and beneficiary protection

Charities are vital organisations which address various issues for public benefit through direct help, raising awareness and community engagement. While charities vary widely with their aims and focus, all charities have the same ultimate responsibility, which is safeguarding their charity assets in order to further the charity's aims. Safeguarding is essential for any charity, and when a safeguarding failure emerges, the consequences can be detrimental.

Safeguarding is becoming more prominent in the current environment where certain charitable objectives may be challenged or result in debate due to global events. As charities navigate this challenging external environment, trustees are still required to make decisions in good faith and act in the best interests of their charity to continue to safeguard the charity, and its beneficiaries.

It is mandatory for charities to report serious incidents to the regulator, and one of the main categories of reportable serious incidents is "protecting people and safeguarding incidents". These are defined by the Charity Commission as, "incidents that have resulted in or risk significant harm to beneficiaries and other people who come into contact with the charity through its work". Regulatory concerns that are identified in the instance that trustees fail to manage safeguarding risks that are relevant to their charity could result in poor public perception, damaging the charity's reputation. Such safeguarding failures identified by the Charity Commission can ruin the public perception of the entire sector, which is why proper trustee governance over safeguarding is so important.

Safeguarding failures

The Charity Commission of England and Wales (Charity Commission) is the regulator of charities in the UK. The Charity Commission notes "protecting people and safeguarding responsibilities should be a governance priority for all charities. It is a fundamental part of operating as a charity for public benefit". If things go wrong, the Charity Commission is the regulatory body that holds trustees to account for the failures.

The Charity Commission includes an examples table on its website in order to help trustees determine what meets the definition of a reportable incident under the "protecting people and safeguarding incidents" category.

- [How to report a serious incident in your charity](#)
- [RSI guidance: what to do if something goes wrong](#)

Charities have found themselves in the news over the past twelve months due to regulatory actions from the Charity Commission. Several charities have been in the press over failures to handle safeguarding allegations. In such instances, the Charity Commission opened compliance cases and noted the charities' trustees failed to maintain adequate oversight of safeguarding, which as noted above, breaches the Charity Commission regulations.

In one instance, the Charity Commission noted that there were not sufficient processes or procedures in place to provide adequate oversight of the safeguarding and protection of its beneficiaries. As a result, trustees were not able to consider whether any safeguarding matters should be reported to the Charity Commission as a serious incident.



Real-world Insights

Allegations and inaction

In January 2025 there were allegations made with regards to the behavior by the Bishop of Liverpool. The results of the Commission inquiry noted that there was a failure to properly handle the safeguarding allegations and maintain appropriate oversight of safeguarding by the trustee, which is a breach in the regulator's safeguarding guidance. While serious allegations must be held with sensitivity, charity trustees must have processes in place in order to handle safeguarding allegations and to maintain appropriate oversight of such safeguarding allegations. The Charity Commission found in their inquiry that the trustees who were aware of the allegation did not take action that would have allowed the trustee Board to fully consider any risks facing the charity as a result of such allegations, and to then conclude on a decision of appropriate action. Additionally, because such processes were not in place, it meant that the trustees were unable to consider whether the allegation should be reported to the Charity Commission as a serious incident when the charity became aware of the allegations in 2023. The allegations were not reported to the Charity Commission until early 2025 which was as a result of media interest.

The Charity Commission issued an official warning on 16 January 2026 against The Liverpool Diocesan Board of Finance and the Chelmsford Diocesan Board of Finance. The warnings were issued as a result of their failure to handle safeguarding in line with the regulatory guidance.

DBS checking

Similarly, the Charity Commission published its conclusion on a safeguarding breach with St Giles Trust on 21 October 2025. St Giles Trust reported a serious incident to the Commission in January 2025 noting that an employee was allowed to work with children in schools while being on the DBS barred list. The charity completed a first DBS check in 2021 where the individual was not included in the barred list, but in 2023 when re-applying, the list was updated with the individual's name. However, the individual worked with children until December 2024 due to an operational failure at the charity. It was identified by an individual in Human Resources and reported to St Giles Trust senior management.

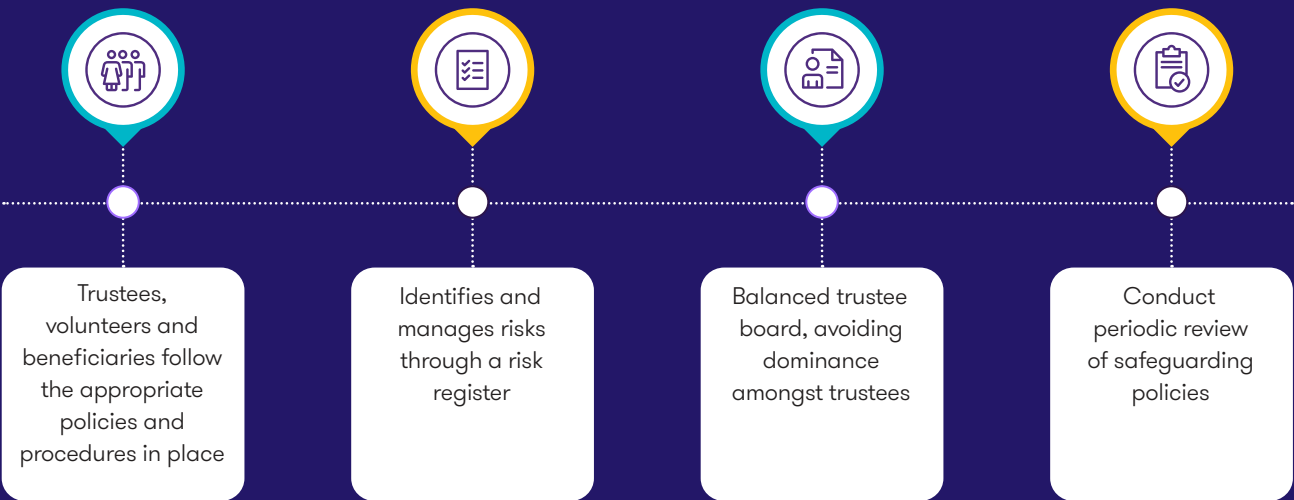
In this scenario, the trustees breached their safeguarding responsibilities by allowing a barred individual to work with children. As a result, the charity made a number of changes to their internal DBS and Risk Assessment policy, procured a new DBS check provider with improved automation and introduced new measures to ensure all DBS checks are checked at least twice, and updated its Safeguarding Children and Young People policy.

Fund oversight

While safeguarding refers to the charity’s responsibility to safeguard its people and beneficiaries, charities are also responsible to safeguard their assets. The Charity Commission issued a press release on 20 October 2025 noting its finding that the trustees at Mountain of Fire and Miracles Ministries International lacked oversight of the charity’s funds. The key findings identified by the regulator were that the charity had over 100 bank accounts and the trustees were unable to demonstrate adequate oversight or control over all bank accounts. Each branch of the charity operated autonomously, which created substantial risks to charitable funds and resulted in inaccurate financial reporting. The charity was required to implement processes to keep track of bank accounts at a centralized level to provide greater security over its assets.

Lessons learned

Safeguarding can take on many forms as noted in the above examples. Such instances above could have been avoided by ensuring the trustees have an appropriate understanding of the Charity Commission guidance on taking reasonable steps to protect its beneficiaries. Additionally, trustees must also ensure that if safeguarding has been delegated to one individual or a sub-group, there must be a robust procedure in place that any information is reported to the full trustee board. Finally, charities need to ensure that they are reporting their serious incidents promptly to the Commission.



Trustees and financial controls

Trustees are responsible for strong governance, which includes safeguarding, in order to fulfil their duties. Often, this begins with the tone at the top, emulating a positive culture that promotes openness. The Charity Commission notes the following key actions for all trustees to ensure appropriate safeguards:

A component of strong governance is actioning appropriate procedures to ensure responses to safeguarding risks are in place. The Charity Commission lists the following ten actions:

- Ensure your charity has an adequate safeguarding policy, code of conduct and any other safeguarding procedures. Regularly review and update the policy and procedures to ensure they are fit for purpose.
- Regularly evaluate any safeguarding training provided, ensuring it is current and relevant
- Review which posts within the charity can and must have a DBS check
- Identify possible risks, including risks to your beneficiaries or to anyone else connect to your charity and to any emerging risks on the horizon
- Consider how to improve the safeguarding culture within your charity
- Have a risk assessment process in place for posts which do not qualify for a DBS check, but which still have contact with children or adults at risk
- Ensure that everyone involved with the charity knows how to recognize, respond to, report and record a safeguarding concern
- Periodically review your safeguarding policy and procedures, learning from any serious incident or “near miss”
- Ensure people know how to raise a safeguarding concern
- If you work overseas, find out what different checks and due diligence you need to carry out in different geographical areas of operation



Safeguarding procedures and processes must be properly understood by the charity. Such procedures and processes should be reinforced with routine training and an organizational commitment to continuous learning and improvement.

All charities need appropriate mechanisms to apprise the trustee body when any safeguarding allegations are made (even when such details must be kept confidential), to ensure trustees can fulfil their legal duties and assure themselves that they are taking the right steps to manage or safeguard the risk.

Trustees must ensure they understand the depth of their responsibilities within their role, especially with regard to safeguarding. Trustees may find themselves having to address safeguarding concerns associated with powerful, dominating individuals at their charity, however, trustees need to be confident in their roles to challenge such individuals. Trustees must be aware of the risks of individuals abusing their position of trust within a charity and have responses to address these risks. The trustees' obligation is to its beneficiaries, and as a result, must have the ability to challenge anyone amongst the Board of Trustees, management or other employees of the charity to ensure the needs of its beneficiaries are prioritized first and foremost.

Financial reporting, law and audit



Charity Regulations and Environmental Reporting

Sustainability or Environmental, Social and Governance (ESG) considerations have become increasingly central to how charities demonstrate accountability, stewardship, and long term value creation. While the current Charities Statement of Recommended Practice (SORP) does not currently contain a discrete Sustainability reporting standard, recent updates, consultations, and regulatory expectations show a clear shift toward integrating Sustainability related disclosures within stakeholder reporting. For periods commencing on or after 1 January 2026, some charities will be required to make specific disclosures in the Trustees' Annual Report as further explained below.

The Trustees' Annual Report already requires disclosures that align closely with Sustainability principles, including:

Public benefit reporting – demonstrating how activities deliver social value.

Risk management – including environmental, climate related, and reputational risks.

Structure, governance and management – aligning with the “G” in ESG.

Fundraising practices – ethical considerations, transparency, and safeguarding.

Social investment policies – including ethical, responsible, or impact focused investment strategies.

Although not labelled as “Sustainability,” these requirements create a foundation for Sustainability aligned reporting.





Emerging trends in the regulatory landscape affecting charities/charitable companies

Regulators are increasingly encouraging charities to consider climate related risks and opportunities. Influences include:

- CFD reporting requirements for large companies. See link for further information: [Environmental reporting in not-for-profit organisations | Grant Thornton](#).
- The development of ISSB standards (IFRS S1 and S2), which are expected to shape future UK sustainability reporting.
- Charity Commission guidance encouraging trustees to consider climate risk as part of fiduciary duty.



Changes to Charities SORP on Sustainability

A conceptual framework for sustainability reporting has been developed and is relevant for periods beginning on or after 1 January 2026. This includes classifying charities into three tiers based on revenue:

- Tier 1: up to £500k
- Tier 2: £500k-£15m
- Tier 3: over £15m

Tier 3 charities are required to include ESG style disclosures in the Trustees' Annual Report, while Tier 1 and 2 are encouraged to do so proportionately.

For Tier 3 charities, reporting must now cover:

- Governance of environmental and social risks, including board oversight
- Sustainability policies, objectives and KPIs
- Progress against environmental and social objectives
- ESG related risks and opportunities and how they are managed
- A clear impact narrative linking activities to wider social and environmental outcomes.
- Charities are expected to explain how climate related risks affect strategy and operations on an “apply or explain” basis.

The revised SORP aligns with updates to FRS 102, reinforcing the principle that sustainability risks can be financially material for charities.



UK Sustainability Reporting Standards (UK SRS) and Companies Act

This will be applicable to:

- Large charitable companies
- Charity with trading subsidiaries subject to company reporting rules
- Charities operating within corporate or public-sector funding chains that require ISSB-aligned data

Charities are not directly in scope of UK SRS. UK SRS will initially apply to listed companies, and potentially later to large private companies. The Charity Commission, OSCR, and the SORP-making body have not mandated UK SRS for charities.

However, the influence on the sector will be significant because many large charities operate similarly to large companies. Funders, regulators, and stakeholders increasingly expect Sustainability aligned reporting. The 2026 Charities SORP includes Sustainability disclosures, especially for Tier 3 charities.

Charitable companies must already comply with Companies Act reporting requirements, Strategic Report requirements (for larger charitable companies) and CFD disclosures if they meet size thresholds.

In the future, as UK SRS will become embedded into UK company law, charitable companies may be pulled into the regime earlier than charitable trusts or charitable incorporated organisations (CIOs).

Major funders (government departments, local authorities, philanthropic foundations) increasingly expect climate risk awareness, social impact measurement and governance transparency.

Many charities hold investments. Asset managers will be required to report under UK SRS, meaning charities will receive more ESG aligned investment information, trustees may need to interpret sustainability disclosures and responsible investment policies may need updating. This links directly to CC14 and the Butler Sloss judgment.

Assurance implications

Partners working with charities, such as large corporations that report more complex sustainability information, will require charities to provide them with information to enable them to meet their reporting obligations. As corporations increase their level of disclosure in their ARAs and other high-profile public reports, the level of expectation around sustainability data accuracy and completeness from charitable partners is increasing.

Funders such as government departments, local authorities, institutional grant-makers, international donors and impact investors will begin requiring verified ESG metrics, independent impact validation and assurance over climate related disclosures.

These stakeholders increasingly expect:

- Verified emissions data
- Assured impact metrics
- Independent validation of outcomes
- Assurance over responsible investment reporting

Corporates are increasingly engaging with providers to assure their own sustainability reporting, which further heightens the level of detail and data quality required by their charitable partners. The ability of charities to provide high quality, accurate and complete information within timelines will be crucial in maintaining and strengthening such relationships.

Charitable companies sit closer to the UK SRS regulatory perimeter because they are governed by the Companies Act. If a charitable company meets size thresholds, it may already be required to obtain assurance over:

- Energy and carbon reporting (SECR)
- TCFD-aligned climate disclosures (for large companies)
- Streamlined environmental disclosures

As UK SRS becomes embedded into UK company law, charitable companies may be required to obtain assurance earlier than other charity structures.

This is especially relevant for large charitable companies, charities with substantial trading subsidiaries and charities operating in regulated sectors (housing, health, education).

What this means is that charities should start strengthening their data governance including setting up reliable systems for emissions data, impact measurement, supply chain information and investment stewardship reporting.

Engaging with assurance providers to obtain an assessment of risks, processes in place, review of reporting methodology and what sustainability information is material can facilitate preparing for the increased scrutiny in the coming months.

SORP changes: the short version

SORP 2026 represents the biggest refresh to charity financial reporting in over a decade. It introduces a more proportionate, principles driven framework while aligning charities more closely with FRS 102 and international best practice.

Tiering: A More Proportionate Reporting Framework

SORP 2026 introduces three reporting tiers to reflect the size and complexity of different charities. The goal? Right sized reporting, avoiding unnecessary administrative burdens for smaller organisations.

- Tier 1: Gross income up to £500,000. Lightest reporting load.
- Tier 2: Gross income £500,000 to £15 million. More requirements than Tier 1, but less than Tier 3.
- Tier 3: Gross income over £15 million. Full requirements.

Reporting is cumulative—each higher tier includes all requirements of the tiers beneath it. (Reinforced through multiple sources summarising changes.) Tiering applies to both the Trustees’ Annual Report (introducing impact and optional/required ESG reporting depending on tier), and the accounts (including different reporting bases, e.g., permissions around natural classification).

Overall, the new model is intended to make reporting more proportionate, clearer, and more meaningful to readers.

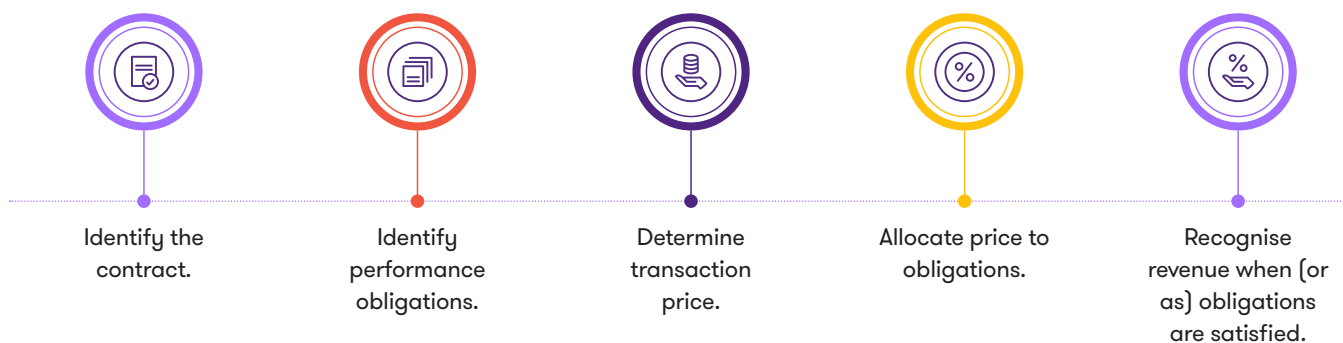
Revenue: The 5 Step Model Arrives

SORP 2026 fully adopts a five step revenue recognition model aligned with IFRS 15, representing one of the most significant conceptual shifts in charity accounting. This brings improved clarity to some areas of revenue recognition after years of stakeholder feedback specifically on grant recognition. Recognition policies that mistimed revenue could create “accidental deficits” in larger charities and the new SORP seeks to address this.

Why This Change Matters

- It replaces a more rules based approach with one centred on performance obligations.
- This affects exchange transactions (e.g., contracts for services) most strongly.
- Non exchange income (e.g., most grants, donations) continues under clarified guidance about when income is earned vs received.

The 5-Step Model in Brief



SORP 2026 brings UK charities much closer to the revenue models used internationally and for-profit entities under IFRS inspired rules.

Lease Accounting: Everything Goes on the Balance Sheet

Another major shift: operating leases are effectively gone. Charities must now capitalise leases on balance sheet (aligning with broader FRS 102 changes). This is covered under Module 10B — Lease accounting, which is a newly introduced module.

What's New

- Clearer, more structured guidance on when arrangements constitute leases.
- A flowchart is included in the module to guide preparers step by step.
- Practical examples help charities apply the standard.

Impact on Charities

- Many charities have historically used significant operating leases (e.g., for premises or equipment).
- Bringing these onto the balance sheet means:
 - Recognition of right of use assets and lease liabilities.
 - Increased visibility of long term commitments.
 - Potential for shifts in key metrics (e.g., reserves levels).

Other considerations

Because the SORP aims to improve clarity and consistency of financial statements, users of the accounts—funders, regulators, donors—may find figures more comparable year-on-year, but they may also question changes in reported numbers arising purely from revised accounting treatments. The stronger emphasis on narrative explanation in the Trustees' Annual Report will be key to helping readers understand why numbers differ from previous years.

Trustees should assess whether new rules on provisions, contingencies, and social investments could alter key balance sheet items used in bank covenants or grant conditions.

Trustees will likely need refreshed training to understand the tier their charity falls into, how income recognition and lease accounting are changing, and what new disclosures are required. Sector guidance notes that early planning and trustee engagement will be important for smooth transition.

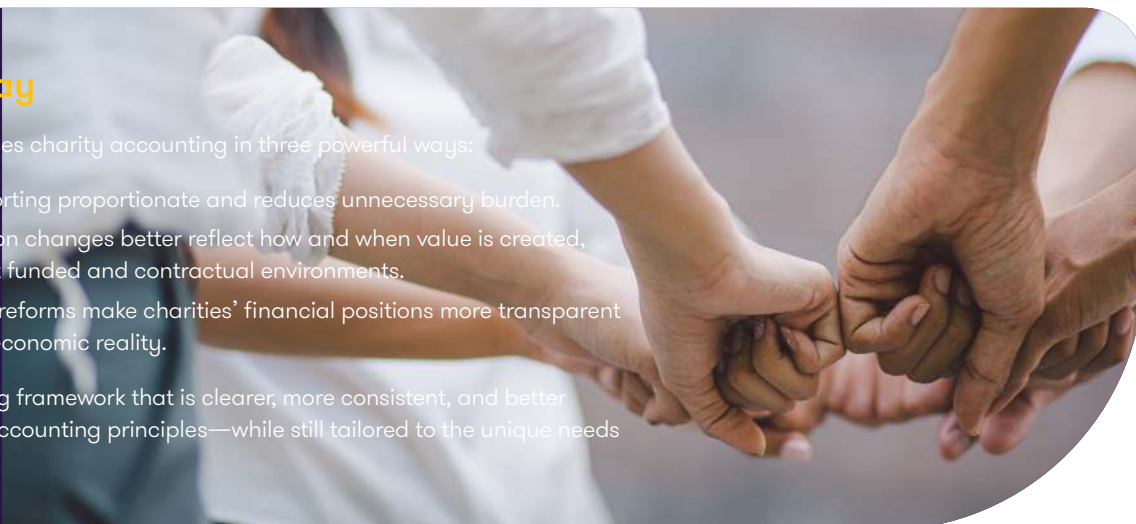
Finally, organisations with loan covenants or performance metrics linked to financial results should assess the impact of SORP-driven changes on covenant tests. Even presentation-only changes could distort ratios if not renegotiated or explained to lenders; the updated SORP is expected to modify the structure and presentation of financial statements significantly, making proactive review essential.

Final Takeaway

SORP 2026 modernises charity accounting in three powerful ways:

- Tiering makes reporting proportionate and reduces unnecessary burden.
- Revenue recognition changes better reflect how and when value is created, especially in grant funded and contractual environments.
- Lease accounting reforms make charities' financial positions more transparent and aligned with economic reality.

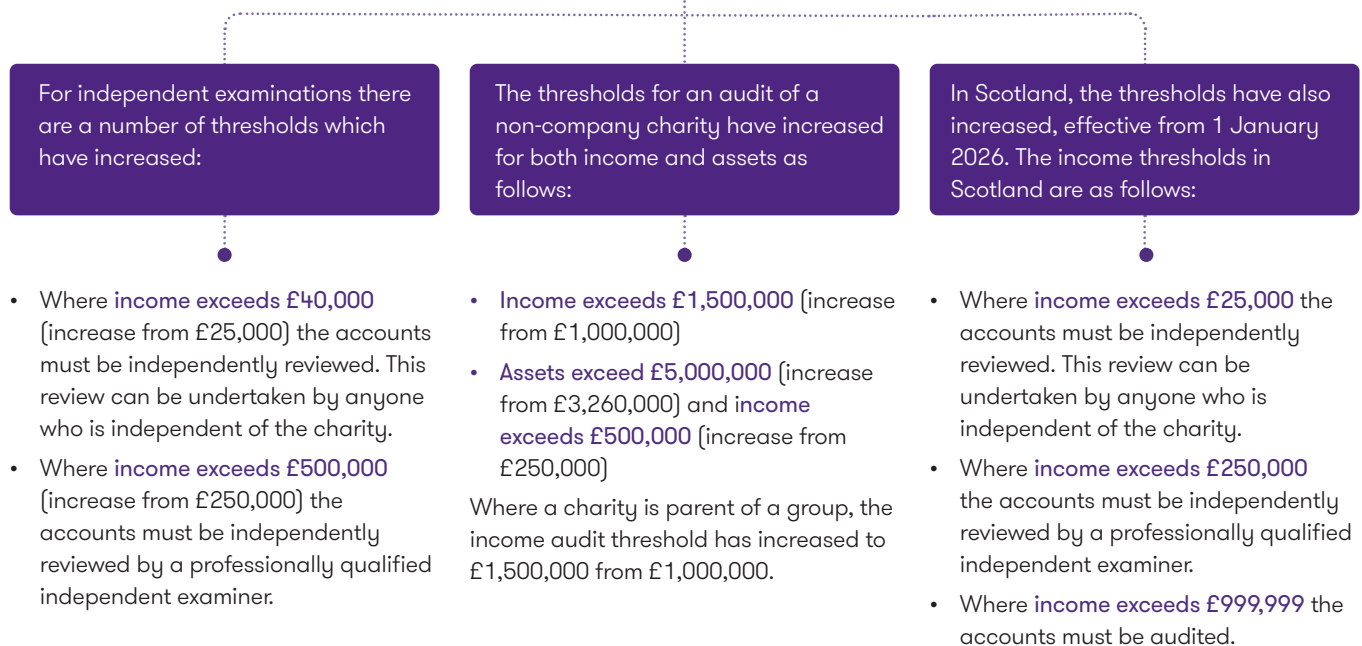
The result? A reporting framework that is clearer, more consistent, and better aligned with global accounting principles—while still tailored to the unique needs of the charity sector.



Changes in audit & independent examination thresholds

From 1 October 2026, the thresholds in England and Wales for the preparation and review of charity financial statements will increase. These changes are estimated to save the charity sector £47m, reducing the administrative burden on small and mid-sized charities.

The threshold over which non-company charities are to prepare financial statements on the accruals basis, instead of the more simplistic receipts and payments, will increase where income is below £250,000, to £500,000.



INPAS – the future of financial reporting?

The global non-profit sector has reached a major milestone with the launch of the International Non Profit Accounting Standard (INPAS) — the first accounting framework created specifically to meet the unique financial reporting needs of charities and non profit organisations. INPAS was formally issued in October 2025 after more than six years of development and consultation across over 40 countries. The standard was developed through the IFR4NPO project, led by CIPFA and Humentum, and is now maintained by the newly established International Non Profit Reporting Foundation (INPRF).

What is it?

INPAS establishes a consistent, accrual based reporting framework tailored to non profit entities, addressing several areas that traditional corporate or public sector standards have historically overlooked. It provides guidance on:

- Recognition of grants and donations
- Treatment of restricted vs. unrestricted funds
- Narrative reporting requirements
- Organisation wide financial statements rather than grant by grant reports

These features respond to the sector's long recognised need for greater transparency, comparability and clarity in financial reporting.

Who is it for?

Although INPAS is designed for global use, UK charities must continue to follow the Charities SORP (FRS 102) for statutory reporting. However, many organisations produce additional reports for international funders, and INPAS provides a coherent framework for this supplementary reporting.

The INPRF aims for adoption in at least ten countries by 2030, supported by further implementation guidance and educational materials. We understand that Kenya will be one of the first countries to adopt the new standard.

Other sector developments, VAT and tax



Strengthening Workforce Skills in the Charity Sector: Why It Matters, What's Changing, and How Grant Thornton Can Help

The charity sector plays a vital role in supporting communities, providing essential services, and addressing some of society's most complex challenges. Yet charities are operating under increasing pressure: rising demand, tightening finances, growing regulatory scrutiny, and difficulties attracting and retaining skilled people. In this environment, investing in workforce capability is one of the strongest levers available to charity leaders, and apprenticeship programmes, funded by the Apprenticeship Levy, represent an underused but powerful solution.

We explain why workforce development matters, what the latest Apprenticeship Levy reforms mean for charities, how levy gifting works, and how Grant Thornton can help charities and partners navigate and maximise these opportunities.

Why Workforce Skills Matter in the Charity Sector

Charities rely on committed staff and volunteers to deliver high-impact services, often in resource-constrained environments. Developing workforce skills supports staff retention, stronger governance, better decision-making, improved productivity and long-term sustainability.



Stronger leadership and governance

Leadership and management apprenticeships equip charity leaders with the skills to drive change, strengthen governance frameworks, and respond effectively to evolving sector challenges.



Improved financial resilience

Finance-focused training helps staff understand budgeting, reporting, compliance and cost control, critical capabilities as charities navigate increasingly complex funding landscapes.



Better employee engagement and retention

Structured learning opportunities increase motivation, job satisfaction and retention, key advantages for charities that often compete with the private sector on non-salary benefits. Apprenticeships also create clearer progression pathways, attracting new talent to the sector.



Enhanced future-proofing

Skills in digital transformation, data, AI, leadership and operational management help charities adapt and remain sustainable as needs evolve. Through apprenticeships and short courses, charities can build resilient, future-ready teams.

The Latest Apprenticeship Levy Reforms and their Impact on Charities

The Apprenticeship Levy is a government initiative requiring employers with an annual pay bill over £3 million to contribute 0.5% of their total pay bill to fund apprenticeships.

Recent updates represent the most significant shift in the levy system since its introduction in 2017. Many of these reforms offer important opportunities for charities, both those that pay the levy and those that do not.

1

Introduction of the new Growth & Skills Levy (from April 2026)

This reform promises more flexible training options, including short-course “apprenticeship units” and foundation apprenticeships. These changes are well-suited to charity needs, enabling organisations to invest in shorter, targeted capability-building programmes without committing to full multi-year apprenticeships.

2

Levy funds now expire after 12 months, not 24

Employers, including larger charities that pay the levy must use their levy contributions within a 12-month window, creating greater urgency to plan training and avoid losing funds.

3

Higher co-investment once levy funds are depleted

Once an organisation’s levy balance is exhausted, it must now contribute 25% of further training costs, up from 5%. For larger sector organisations, this increases the importance of planning spend carefully.

4

Removal of the government’s 10% top-up

Employers will now only access the value of their own contributions, reducing the total training pot available.

The Latest Apprenticeship Levy Reforms and their Impact on Charities

Apprenticeship Levy Gifting and Co-investment: A Game-Changer for Charities

Many charities do not pay the Apprenticeship Levy, but they can still access significant funding through Government Co-investment and levy gifting.

What is Government Co-investment?

If you don’t pay the apprenticeship levy, or if you’re a levy-paying employer but don’t have enough funds, you’ll need to pay 5% of the training and assessment costs for your apprentice. The government will cover the rest, up to the funding band maximum.

For learners under 25, the Government will cover 100%, which eliminates cost barriers for younger apprentices and supports early-career talent development.

What is levy gifting?

Levy-paying employers can transfer up to 50% of their levy funds to other organisations, including charities, to fully fund apprenticeship training and assessment.

This enables charities to receive fully funded apprenticeships at no cost to their own budgets, aside from apprentice wages.

Maximizing Opportunities

Grant Thornton brings extensive expertise in apprenticeships, workforce development and the charity operating environment. Your internal materials highlight several strengths:

a. Programme design and delivery

Grant Thornton co-designs apprenticeship programmes with leading providers (such as Raise the Bar, BPP and Teesside University) and delivers high-quality learning aligned to charity needs—from early-career development to senior leadership.

Apprenticeships: Flexible upskilling for Immediate Impact covering areas such as:

- Leadership and management
- Coach development
- Finance and governance
- Digital and data skills
- Sustainability and Corporate Social Responsibility

These courses are tailored to the needs of the charity sector, enabling organisations to address specific skills gaps quickly and efficiently.

We also offer commercially funded short courses designed to deliver immediate results.

b. Strategic advisory support

Grant Thornton helps charities understand their levy eligibility, assess options, identify skills gaps and build targeted workforce development plans. This includes reviewing potential apprenticeship standards and short-course pathways.

c. Helping charities access gifted levy funds

Charities often lack awareness or capacity to navigate levy gifting. Grant Thornton supports by:

- Identifying potential levy-gifting partners
- Positioning skills needs to attract funding
- Supporting the application and matching process
- This bridges the gap between donors and recipients.

Conclusion

In 2026, the charity sector's ability to adapt and thrive depends on its investment in people. By leveraging the Apprenticeship Levy and Grant Thornton's short courses, charities can address critical pain points, build a skilled and resilient workforce, and deliver greater impact for their beneficiaries.

Further Information and Resources:

- [Grant Thornton Apprenticeship Levy Services](#)
- [Future Skills at Grant Thornton](#)

Common causes of system implementation failures

Introduction

In recent years, many charities have increasingly embarked on ambitious system implementation projects in pursuit of digital transformation, operational efficiency, and competitive advantage. Despite the significant investments and well-intentioned planning, many of these initiatives fall short of expectations or fail altogether. Drawing upon expertise from assurance and internal audit work conducted by Grant Thornton over the past two years, this article explores the top five reasons why system implementations often falter.

Through hands-on experience supporting a diverse array of clients, common pitfalls and recurring themes have emerged, underlining the critical areas organisations must address to ensure project success. Here, we delve into the most prevalent and impactful causes of failure – ranging from excessive reliance on third-party suppliers, rigid contract terms, and limited customisation options, to inconsistent performance, communication issues, and insufficient monitoring. By examining these challenges in depth, we aim to provide practical insights and actionable recommendations that will empower charities to navigate the complexities of system implementation more effectively. Whether you are planning a new technology rollout or seeking to understand the risks inherent in your current approach, the lessons highlighted here should help you avoid costly mistakes and achieve long-term value from your investment.



1. Excessive reliance on third-party suppliers

Charities frequently turn to third-party suppliers to support system implementations, whether it be for industry standard systems, systems integration skills or project management services. While leveraging external suppliers can bring valuable skills and accelerate project timelines, excessive dependence on these suppliers often introduces significant risks that can derail an implementation.

01

Rigid contract terms limit flexibility

One of the primary risks associated with heavy reliance on third-party suppliers is the presence of rigid contract terms. These contracts are often standardised to protect the supplier's interests, leaving little room for adaptation as project requirements evolve. When a business's requirements change mid-project, inflexible agreements can prevent the necessary adjustments, resulting in misalignment between the organisation and the supplier. This lack of adaptability can cause delays, increase costs, and, in some cases, lead to project failure if critical changes are not addressed in a timely manner.

02

Resistance to change and limited customisation options

Third-party suppliers often have established methods, tools, and frameworks that may not perfectly fit a client's unique operational environment. When suppliers resist tailoring their approach or product to suit specific organisational needs, the system implementation may lack necessary configuration. This can lead to a solution that only partially meets business objectives or forces the organisation to adjust its processes to fit the system, rather than the other way around. Resistance to change from both the supplier and internal stakeholders can compound these issues, reducing the effectiveness of the new system and lowering user adoption once it is implemented.

03

Inconsistent performance and lack of standardisation

Another common challenge arises from inconsistent performance across different third-party providers. When multiple suppliers are involved, varying levels of service quality and differing standards can create confusion and inefficiencies. Lack of standardisation in processes, documentation, and communication makes it difficult to maintain a unified project direction. This inconsistency can result in delays and errors, ultimately compromising the quality of the implementation.

04

Communication issues and insufficient monitoring

Effective communication is crucial during any system implementation, especially when external suppliers are involved. However, excessive reliance on third parties can introduce communication barriers such as misunderstandings, language differences, or misaligned expectations. These challenges can lead to missed deadlines, duplicated efforts, or overlooked requirements. Furthermore, insufficient monitoring of third-party performance exacerbates these risks, as issues may go undetected until they have already impacted the project.

Consequences

The culmination of these factors – rigid contract terms, resistance to change, limited customisation, inconsistent performance, lack of standardisation, communication issues, and insufficient monitoring – creates a high-risk environment for system implementations. When a project relies too heavily on third-party suppliers, there is a real danger of misalignment between evolving business needs and supplier capabilities. This misalignment can lead to delays, cost overruns, unmet objectives, and even outright project failure. To mitigate these risks, organisations should strive for balanced partnerships to share the risk, maintain flexibility in contracts, ensure robust communication channels, and actively monitor supplier performance throughout the implementation process. By doing so, they can maximise the benefits of external expertise while retaining the agility and control necessary for successful system adoption.

2. Poor Stakeholder Engagement and Lack of Business Readiness

The successful implementation of any new system requires robust stakeholder engagement and comprehensive business readiness. When these elements are neglected, the likelihood of failure significantly increases, often resulting in operational disruption, wasted resources, frustration amongst system users and a diminished return on investment.

Poor stakeholder engagement is a primary reason why system implementations falter. Stakeholders – such as end-users, managers, and executives – provide essential insights into current processes, pain points, and continuous validation of evolving requirements. If they are not actively involved and engaged throughout the project, there is a risk of misaligned expectations and a lack of critical input. This disengagement can manifest as limited feedback, poor collaboration, and ultimately, resistance to change. When people feel excluded from decisions that affect their daily work, motivation tends to wane, leading to decreased enthusiasm for the new system and increased resistance to its adoption.

Similarly, a lack of business readiness can undermine even the most well-designed technical solutions. Business readiness encompasses adequate training, sufficient resources, and effective communications. Inadequate training leaves staff ill-prepared to operate the new system, resulting in errors and frustration. Insufficient resources – whether in terms of personnel, time, or equipment – hamper smooth implementation and may force teams to cut corners. Poor communication means that key messages about the system's benefits, timelines, and requirements are not clearly conveyed, fostering uncertainty and confusion.

Cultural resistance presents an additional challenge. If the organisational culture is not supportive of change, even the best systems may fail to gain traction. Employees may cling to familiar processes, resist new ways of working, and question the value of the transformation. This often results in organisational inertia – a tendency to maintain the status quo and avoid taking action – further slowing progress. These issues can be compounded by decreased motivation and poor collaboration, which further impede progress and contribute to project delays.

Consequences

Ultimately, the absence of strong stakeholder engagement and business readiness leads to teams being unprepared to adopt the new system. This can result in operational disruptions, increased costs, and the failure to realise intended benefits. For charities, where regulatory compliance and efficiency are paramount, ensuring that stakeholders are actively involved and the business is fully prepared is not just best practice – it is essential for successful system implementation.



3. The Impact of Changing Environments on Project Success

System implementation projects can fail due to the inability of requirements and project plans to keep pace with rapidly evolving external factors. In any dynamic landscape, charities must contend with changes in regulations, market trends, technological advancements, and shifting stakeholder needs. When these external influences are not adequately considered or addressed, the likelihood of system implementation failure increases significantly.

01

Regulatory changes

Regulatory expectations by the Charity Commission are subject to frequent updates, particularly regarding governance, reporting, and compliance standards. New regulations or guidance from the Commission can be introduced at any stage of a system implementation. If a charity's system requirements are not routinely reviewed and revised to reflect these changes, the solution may fall out of compliance. In some cases, the effort and expense required to retrofit compliance updates into an ongoing project can be substantial, leading to significant delays or the need to abandon the initiative altogether.

02

Evolving fundraising and volunteering trends

Trends shift quickly, driven by preferences and competitive pressures. A system designed to address yesterday's trend realities may be ill-equipped to handle new demands. For example, a charity retail management system built without accounting for today's digital and multichannel expectations will struggle to support modern operating models. Failure to anticipate and respond to market changes can leave organisations with systems that do not deliver value or competitive advantage.

03

Technological Advancements

Technology moves at a remarkable pace and large system implementation projects can span up to two years. During this time, new tools, platforms, and methodologies are almost certain to emerge. If the project is based on outdated technology or fails to integrate newer, more effective solutions, it may result in a system that is obsolete upon launch. This can lead to poor performance, lack of scalability, and increased maintenance costs, while also preventing the organisation from realising the intended benefits, thereby undermining the project's long-term success.

04

Stakeholder Needs

Stakeholders – whether beneficiaries, donors, employees, or partners – have evolving needs and expectations. If these are not regularly revisited and incorporated into the system requirements, the final product may fail to meet user needs, resulting in low adoption, dissatisfaction, and ultimately, project failure.

Consequences

System implementations are vulnerable to failure when organisations do not proactively manage the risks associated with evolving external factors. Regular review and adaptation of requirements in response to regulatory changes, market trends, technological advancements, and stakeholder needs are essential to ensure alignment and project success.

4. Excessive customisation

When charities embark on the journey of implementing new systems, one of the pivotal decisions they face is whether to customise the solution to meet specific needs, or to rely on standard configuration options. While customisation may appear attractive – promising a perfect fit for unique processes and requirements – it often introduces significant risks that can undermine the success of the entire project.

Excessive customisation invariably leads to increased complexity. Custom features and bespoke workflows can make the system more difficult to understand and operate, both for end users and for those responsible for its ongoing management. This complexity can slow down implementation timelines, inflate costs, and create unforeseen technical challenges that disrupt established business processes. Rather than streamlining operations, a heavily customised system can introduce inefficiencies, as staff are forced to adapt to altered workflows that may not align with their day-to-day activities.

Training becomes another major hurdle. Standard systems typically come with comprehensive training materials and support resources, which are designed to help users quickly become proficient. However, when a system is heavily customised, these resources often become obsolete or insufficient. Organisations must then invest additional time and effort into creating bespoke training programmes, which can be both costly and time-consuming. Staff may struggle to grasp the nuances of the tailored system, leading to lower adoption rates and reduced productivity.

Support and maintenance are also significantly complicated by customisation. Standard configurations benefit from supplier support, regular updates, and a community of users who can share solutions to common problems. In contrast, custom systems often require specialist knowledge to maintain and troubleshoot, making organisations reliant on a small group of experts or external consultants. This can result in slower response times to issues, higher maintenance costs, and increased vulnerability if key staff members leave.

Consequences

Ultimately, the risk is that the system becomes unsustainable in the long term. With each custom feature, the gap between the implemented solution and its supported baseline widens. Charities may find themselves unable to upgrade or integrate with new technologies without extensive redevelopment. In worst-case scenarios, the system may fail outright, leaving the organisation exposed to operational disruptions and financial loss.

In summary, prioritising standard configuration options and keeping systems simple is often the wiser approach. It reduces complexity, facilitates training, streamlines support and maintenance, and ensures greater stability and adaptability for the future.



5. Change control

System implementations are inherently complex undertakings, often involving multiple workstreams, stakeholders, and dependencies. One of the primary reasons such projects fail is inadequate technical change control throughout the implementation lifecycle. Without robust change management processes in place, the risks of scope creep, compromised end-product viability, and convoluted support and maintenance requirements increase significantly.

Poor technical change control allows for unplanned or inadequately assessed modifications to be introduced into the system. These uncontrolled changes may impact other project workstreams, creating unforeseen dependencies or conflicts. For instance, a seemingly minor adjustment in one module could inadvertently disrupt another, leading to delays and additional costs as teams scramble to address the knock-on effects. This lack of coordination undermines the overall integrity of the implementation effort.

Furthermore, when changes are not subject to proper governance and challenge, the viability of the end-product can be severely compromised. Decisions made in haste, or without adequate technical scrutiny, may result in a system that fails to meet business requirements or is riddled with technical debt. Over time, these issues can erode the expected benefits of the implementation, leaving stakeholders dissatisfied and the organisation unable to realise a return on investment.

Consequences

Complicated support and maintenance are a consequence of poor technical change control. As undocumented or poorly executed changes accumulate, the system becomes increasingly difficult to manage and troubleshoot. This complexity not only drives up operational costs but also increases the risk of outages or security vulnerabilities. Failure to enforce rigorous technical change control throughout the system implementation lifecycle can lead to project overruns, diminished value, and heightened operational risks. Effective governance, transparent processes, and thorough impact assessments are essential to safeguarding the success of any system implementation.

Pension Salary Sacrifice: What's Changed and What It Means for Charities

Following a number of other measures that have increased employment costs, November's Budget introduced a major shift in workplace pension savings — one that comes during one of the most financially challenging periods the UK charity sector has ever faced. From April 2029, NICs will apply to salary sacrificed pension contributions above **£2,000 per year**, removing an exemption that charities have relied on to create savings on Employer NICs and stretch every pound further.

This change lands while charities face falling income, rising operating costs, and growing demand. The sector's financial resilience has declined sharply, with the gap between income and expenditure shrinking by nearly **75% in the past two years**.¹



What's Changing?

Currently, both employees and charities benefit from full NIC relief on sacrificed pension contributions (subject to national minimum wage (NMW) rules). From April 2029:

- Employees earning under £50,000 pay 8% NICs on contributions above £2,000; higher rate taxpayers pay 2%.
- Charities will pay 15% Employer's NICs on the excess (based on current secondary rates).
- Income tax relief remains unchanged.

This measure is expected to raise £4.7 billion in 2029–30 and £2.6 billion in 2030–31, according to the Office for Budget Responsibility (OBR)², although given the time until its introduction, some commentators have questioned these assumptions, on the basis that employers can change their strategy now in order to avoid some of the additional costs.



Why Does This Matter for Charities?

Salary sacrifice has been a critical tool allowing charities to support staff with more cost effective pension saving. It allows charities to achieve Employer's National Insurance savings that help offset rising employment costs and offer a more competitive benefits package despite constrained budgets.

These pressures matter because:

- Government funding has declined by £1bn per year in real terms since 2020.
- Regular donors have decreased by four million people since 2019.
- Operational costs — wages, energy, rent, NICs — continue to rise sharply.³

And many charities already report uncertainty about their financial outlook following increases to the National Minimum Wage and Employer NICs.⁴

1. <https://www.gov.uk/government/publications/charity-sector-risk-assessment-2025/charity-sector-risk-assessment-2025>

2. <https://www.scribd.com/document/955762674/OBR-Economic-and-Fiscal-Outlook-November-2025>

3. <https://www.begbies-traynors.com/news/commentary/uk-charity-sector-strained-to-breaking-point>

4. <https://www.krestonreeves.com/wp-content/uploads/2025/06/Kreston-Charities-Report-2025-Kreston-Reeves.pdf>



Sector Impact

Many charities use salary sacrifice extensively. A 2025 CFG survey⁵ highlighted:

- Significant concerns that a £2,000 cap would add substantial employment costs.
- 81% of charities said the recent NIC increase had negatively affected their ability to offer competitive benefits.
- Nearly 70% had already reduced or expected to reduce headcount due to rising employment costs.

Across the wider economy, reports suggest 77% of organisations use salary sacrifice for pensions — indicating that charities are not outliers but will be disproportionately affected due to sector funding pressures.⁶

The charity sector is also one of the most competitive for employee benefits⁷, offering flexible working in 36% of charity roles and wellbeing programmes in 9% — meaning any cutbacks risk undermining recruitment and retention in an already strained talent market.



The Practical Impact

Consider an employee in a charity earning £40,000 and sacrificing £5,000 annually. Under the 2029 rules

- £3,000 of the total contribution becomes subject to NICs.
- The charity would pay £450 in NICs; the employee pays £240.

Multiply this across a medium or large workforce, and the added costs could be substantial — especially for organisations already absorbing NIC increases that were projected to cost the sector £1.4bn more annually.⁸



What Should Charities Do Now?

The delayed implementation gives businesses time to prepare. Key steps include:

- **Model the cost impact:** Understand how much the change will add to your NIC bill.
- **Review pension scheme design:** Consider alternative contribution structures.
- **Explore offsetting strategies:** Savings from benefit redesign, premium renegotiation, or scheme consolidation could help.
- **Prioritise valued benefits:** Identify which perks matter most to employees if cutbacks are necessary.
- **Plan communications:** Clear messaging will be vital to maintain trust and engagement

Final Thoughts

The 2029 salary sacrifice reform introduces a major cost consideration for charities at a time of heightened financial fragility. By acting early, charities can navigate the change while continuing to support staff and protect their mission.

Grant Thornton can support you to quantify the financial impact of the NIC change, restructuring pension scheme and salary sacrifice arrangements so that they remain compliant and cost-effective. With effective planning, communication and consultation some employers could, for example, look to shift to a fully employer-funded pension arrangement for the whole workforce over the next few years to help avoid the impact of the change.

We can help identify savings elsewhere in your benefits portfolio and communicate any changes effectively to employees, ensuring they understand the reasons behind any change to their take home pay, and the wider value of your employee benefits.

The key message is don't wait until 2029; start planning now. Contact Grant Thornton's Employee Benefits team to schedule a strategic review and ensure your business is ready for one of the most significant pension reforms in a decade.

5. https://cfg.org.uk/knowledge-hub/help_us_understand_the_impact_of_potential_pension_salary_sacrifice_changes

6. <https://www.blickrothenberg.com/insights/detail/uk-pension-and-salary-sacrifice-survey-report-2025/>

7. <https://www.charitytimes.com/ct/charity-sector-among-most-competitive-for-employee-benefits.php>

8. <https://businessnewswales.com/why-charities-should-consider-salary-sacrifice/>

VAT treatment of fundraising events income – HMRC Revenue and Customs Brief 3 (2025)

This Brief provides an update on the VAT treatment of income from events organised for charitable purposes, ie fundraising events, by a charity or jointly by more than one charity and the conditions for this income to be exempt from VAT under Item 1, Group 12, Schedule 9 of the VAT Act 1994. The Upper Tribunal's decision in *Yorkshire Agricultural Society* ([2025] UKUT4), highlighted two important points that need to be considered when deciding whether the exemption applies:

1. The primary purpose

The Upper Tribunal confirmed that the primary purpose of the event must be that of fundraising. However, there can be more than one primary purpose and where the primary purposes cannot be separated in importance, the exemption can still apply provided one of those primary purposes is fundraising. If an event has more than one primary purpose, HMRC may require evidence of this and an explanation as to why the purposes cannot be separated in terms of importance. To demonstrate a primary purpose, charities and other qualifying bodies must be able to provide objective documentary evidence that an event was organised as a fund-raising event.

2. Promotion of the event

The legislation states that the event must be 'promoted as being primarily for the raising of money', ie it must have the primary purpose of fund-raising and must be advertised as a fund-raising event.

VAT relief for business donations to be given away for free

Following consultation, the Government has confirmed that a new VAT relief will be introduced from 1 April 2026 for business donations of goods to charity for distribution to those in need or use in the delivery of their charitable services.

The objective of the relief is to remove a VAT charge that previously discouraged businesses from donating goods, such as surplus stock, to charity, often causing those goods to be destroyed or sent to landfill. Under the current rules, businesses must account for VAT (or reverse the input tax they had previously recovered on those goods at the time of acquisition) when giving goods away in those circumstances.

The new VAT relief will remove the need for taxpayers to account for VAT on donations of goods to a charity where their value falls below a certain threshold (£200 per item for white goods, furniture, flooring materials, computers, mobile phones and tablets, and £100 per item for other types of goods) and meets other eligibility criteria. The relief will apply to donations to any registered charity.

Businesses who wish to make use of the relief will be required to obtain a certificate from the recipient charity confirming that the goods will be used or distributed for charitable purposes, and to keep records of the donated goods and evidence of their delivery to the charity.



This development means that many businesses who have previously been deterred from donating goods due to the VAT consequences, may now consider donating goods. As such, charities should see an increase in donations from businesses and will need to put a process in place for issuing VAT certification that the goods will be used or distributed for charitable purposes.

The use of VAT grouping within the care industry – HMRC Revenue and Customs Brief 2 (2025)

Released in April 2025, this Brief contains HMRC's new policy on the use of VAT groups by providers of welfare services in the care sector with the aim of preventing them from being able to recover VAT on costs associated with the supply of welfare services that would otherwise be exempt from VAT.

Within the welfare sector, there has been a practice of creating a VAT group comprising a state regulated provider of welfare services and an entity which is not state regulated or a charity. Supplies of welfare services are then restructured so that the entity contractually makes the supply of care to the local authority/NHS trust/Integrated Care Board ('ICB') is not state regulated or a charity, and so does not qualify for welfare exemption. The VAT group is then able to recover input VAT incurred in relation to these contracts. The non-regulated entity is inserted into the supply chain between the state-regulated provider or charity and the local authority/NHS trust to whom the supply is made.

HMRC has confirmed that it regards this structure to be a form of tax avoidance and has announced the following actions:



HMRC intends, with immediate effect, to refuse new VAT group registration applications which it believes are designed to implement this structure arrangement. Where necessary, HMRC has said it will use its powers under s.43C(1) of the VAT Act 1994 to remove the relevant entities from the VAT group.



It will also launch a programme to review and investigate existing VAT groups which it believes are using this planning arrangement. Where necessary, HMRC has said it will use its powers under s.43C(1) of the VAT Act 1994 to remove the relevant entities from the VAT group.

HMRC has asked VAT registered providers to review their current VAT position and, if they believe their arrangements fall within the description in this brief, to notify HMRC

New potential VAT relief for housing associations

The 2025 Autumn Budget included the mention of a consultation on the reform of VAT rules to incentivise the development of land intended for social housing. So far HMRC has given no further details of the underlying issue or indicated when the consultation will be launched, but we understand that this may refer to plans to create a new zero-rate relief for the sale of bare land to registered providers of social housing, many of whom are charitable.

Currently, VAT is chargeable at the standard rate on land that is subject to an option to tax by the vendor, which housing associations, being partially exempt, are not entitled to recover in full. As a result, many choose to set up a 'golden brick' arrangement where title to the land does not pass from the developer to the housing association until construction has progressed above the level of the foundations, at which point it becomes a zero-rated supply of new homes under construction.

This would be a welcome change to the sector as it should ease cash flow pressures and reduce the administrative costs incurred on building new social housing on opted land. Developers and housing associations should look out for publication of the consultation document and news of a target implementation date.

Capital Goods Scheme update

HMRC has announced that it will increase the £250,000 Capital Goods Scheme ('CGS') threshold for property to £600,000 (VAT exclusive) and remove computers and computer equipment from the scheme. It is anticipated these changes will be effective from 1 April 2026.

Following the increase in threshold, businesses may need to consider the following:

01

The change will make some additional businesses eligible for the Flat Rate Scheme (businesses cannot join a flat rate scheme if they fall within the CGS)

02

The anti-avoidance rules for the option to tax are affected by whether the land/building falls within the CGS. As such, following the increased threshold, fewer land/buildings should fall within the anti-avoidance rules.

03

There are additional requirements for the transfer of a going concern of land/buildings which fall within the CGS

04

The general rules for recovering VAT incurred prior to registration do not apply to CGS assets. In relation to building work, an increased threshold will allow immediate recovery in some cases, but only where the VAT was incurred in the previous six months. Where it was incurred at an earlier date, it will likely be irrecoverable and as such, an additional cost.



Update to HMRC's VAT Notice 700/45: How to correct VAT errors and make adjustments or claims

Historically, taxpayers have been able to adjust a VAT error of less than £10,000 or 1% of box 6, if less than £50,000 (whichever is more), on their next VAT return and a separate disclosure was only required for errors over this threshold or if the error was deliberate. However, HMRC has updated the above Notice to confirm that for all errors (even less than the above threshold) and even where the error is only careless, a separate disclosure must be made.

Previously an error could be disclosed via form 652, however this is no longer in use and errors must instead be disclosed using an online process or in writing to HMRC. Only by making an unprompted disclosure can any potential penalties be reduced.

Behavioural penalties

HMRC has published a summary of responses to its cross tax 'Reform of Behavioural Penalties' consultation which, from a VAT perspective, confirms its intention to modernise penalties for errors/inaccuracies on a VAT return or for late notifications, such as of a liability to register for VAT. The reform is expected to bring specific penalties for 'repeated deliberate behaviour' and a possible end to the penalty suspension regime. HMRC is also considering creating a new penalty category for 'reckless' errors.

The Government will develop draft legislation for further consultation. While businesses do not yet have sufficient detail of the Government's plans, changes to the current penalty system will definitely happen. This news fits into an emerging theme of an overall increase in HMRC scrutiny for taxpayers, which is also indicated by its increased use of random inspections and 'nudge letters' to encourage disclosure of possible VAT errors. All businesses, especially those covered by the Senior Accounting Officer or Business Risk Review regimes should watch for further developments.

E-invoicing

Following a consultation in 2025, the use of e-invoicing will be mandated from April 2029, requiring all VAT invoices to be issued in a specified electronic format. The Government will work with stakeholders to develop an implementation roadmap to be published in the 2026 Budget.

Corporation Tax changes

Changes to charity tax compliance rules have been expected since HMRC launched a consultation in 2023.

The consultation made it clear that HMRC intends to strengthen the existing rules. Draft legislation (which takes effect from April 2026) has been produced which changes the rules for:

- Tainted donations to charity;
- Approved charitable investments; and
- Attributable income.

We do not anticipate that these changes will have a major impact on our clients as they have been primarily introduced to strengthen anti-avoidance measures, mainly targeting tax schemes created to benefit people manipulating charity tax reliefs for their own gain. However, it is useful to be aware of the changes and be mindful of them when receiving donations.

It is worth noting that all these changes will cover not just charities but also community amateur sports clubs.

Tainted Donations to Charity

The changes mean that HMRC will assess not only donor intent (the purpose) but also the outcome of transactions, essentially HMRC will be allowed to look at a series of transactions in the round.

In addition, the threshold for identifying a tainted donation will shift from “financial advantage” to the broader “financial assistance,”. This tightens the criteria for tax relief eligibility and essentially lowers the bar slightly in catching and penalising people who want to give to charity but get a benefit from it themselves.

Approved charitable investments

HMRC are also extending the number of investment types subject to the requirement that an investment must be made for the benefit of the charity and not for tax avoidance.

This anti-avoidance requirement, which was previously applicable to only Type 12 investments will be increased to cover all investment types.

Attributable Income

The tax treatment of legacies is being aligned with the tax treatment of other income sources. Legacies received by charities will now fall within the ‘attributable income definition’, which means the legacy received must be spent on the charity’s charitable purpose. Failure to do so is likely to result in a corporation tax charge.

Artificial Intelligence (AI) and Assurance

Artificial Intelligence (AI) has existed in various forms for many decades. However, public awareness, investment and adoption accelerated significantly following the emergence of widely accessible tools such as ChatGPT in 2022. By 2026, progress remains rapid, but the most valuable applications of AI are becoming clearer, alongside a more realistic understanding of its limitations.

Recent advances, particularly in Large Language Models, have enabled new capabilities in areas such as language processing, document analysis and pattern recognition. These developments are notable not only for what they make possible, but also for the new types of risk they introduce. AI systems can produce outputs that appear confident and authoritative while being incomplete or incorrect, meaning they require careful design, oversight and use.

AI for assurance

Assurance is fundamentally concerned with reliability, evidence and trust. At first glance, this may seem at odds with a technology sometimes associated with uncertainty or “hallucinations”. In practice, however, the risks associated with AI largely arise from how it is implemented and governed, rather than from the existence of the technology itself.

As with many technologies now embedded in audit and assurance, safe and effective use depends on appropriate expertise, controls and professional judgement. AI tools used in assurance should be designed and deployed by specialists who understand how different techniques operate, where they are dependable, and where alternative approaches are more suitable. Importantly, AI is not limited to generative models: in many cases, established machine learning or analytical techniques provide more reliable and transparent results.

When applied appropriately and with human oversight, AI can support assurance work by enabling analysis of full populations of transactions, extracting structured information from contracts or grant agreements, supporting complex judgements such as forecasting or impairment using models grounded in historical data, and helping auditors explore data more efficiently. In all cases, AI acts as a support to professional judgement, not a replacement for it.

Assurance for AI

Alongside its use within audit and assurance, many charities are beginning to explore AI within their own operations. Commercial AI tools can offer meaningful efficiencies, particularly for administrative, analytical or drafting tasks, potentially freeing up staff time and resources. However, these benefits need to be balanced against risks relating to governance, data protection, bias and over-reliance on automated outputs.

For charities considering whether and how to adopt AI, the following practical considerations may be helpful:



From an assurance perspective, auditors and independent examiners can play a role in providing confidence over how AI is used, even as formal regulatory frameworks continue to develop. This may include consideration of governance arrangements, accountability for AI use, how risks such as bias or model drift are identified and managed, and whether AI outputs are used in a way that aligns with the charity's values and objectives.

While standards and certifications for AI are still evolving, independent assurance can help charities navigate this area with greater confidence, supporting responsible innovation while maintaining trust and accountability.

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