FUNDING THE CHARITY COMMISSION

To fee or not to fee? That is the question.

January 2018
About the Charities Aid Foundation (CAF)

Charities Aid Foundation (CAF) is a leading international civil society organisation (CSO). The CAF Global Alliance includes nine offices covering six continents which help people and business support charities in more than 100 countries worldwide. Our mission is to motivate society to give ever more effectively and help transform lives and communities around the world. We work to stimulate philanthropy, social investment and the effective use of charitable funds by offering a range of specialist financial services to charities and donors, and through advocating for a favourable public policy environment.

If you have any thoughts or feedback on this discussion paper, or would like more information, please email campaigns@cafonline.org
Executive summary

Since 2008, the Charity Commission has seen a sizeable reduction in the funding that it receives from the Treasury, which has made it challenging for the Commission to fund all of the duties that it carries out. In response, the Charity Commission has stated that it is considering charging charities a fee for regulation, which it plans to consult on later this year.

This report puts forward some alternative options for the Charity Commission and charities themselves to consider alongside the proposals for charging emanating from the Commission, in order to broaden the terms of the public debate and to reach a conclusion that works effectively for both the regulator and the organisations that it regulates.

Charities Aid Foundation (CAF) believes that it is important for the Charity Commission to receive the funding it needs to ensure that charities and the public continue to benefit from a well regulated sector. We understand the impact of the broader economic climate on the Commission, and are sympathetic to their efforts to generate additional income from new sources. Whilst we ideally would like to see the Commission’s funding needs met entirely by HM Treasury, we recognise that this is unlikely in the current climate.

The Charity Commission’s desire to charge charities a fee for their work is understandable, given that it would substantially increase their income and is a simple solution for which there has long been some support. However, it must be noted that support for this approach has often been driven by financial necessity rather than because it is understood to improve governance.

CAF is seeking to widen the discussion past the binary positions adopted by those on both sides of the charging debate. We seek to use this report to stimulate discussion in order to find a pragmatic solution that addresses the concerns that charities have with the
Commission’s existing plans, and its need to generate income in order to continue to regulate charities effectively.

This report puts forward some options for the Charity Commission to consider that we believe could help to develop principles of good governance and public trust. We welcome the Commission’s plans to consult charities on their plans shortly, and urge charities to engage constructively with the Commission to deliver an outcome that stands our sector in good stead for the future.

The Charity Commission

The Charity Commission for England and Wales is the non-ministerial government department that regulates registered charities and maintains the Central Register of Charities in England and Wales.

As well as registering charities, the Commission is also responsible for taking enforcement action when there is malpractice or misconduct and ensuring that charities meet their legal requirements, including providing information on their activities each year. It supports charities by providing online services and guidance to help them run as effectively as possible, and it also makes appropriate information about each registered charity publicly available.

The Commission has identified three key areas of priority for its work:

- to develop public confidence in the charity sector
- to develop the sector’s compliance and accountability
- to develop the self-reliance of individual charities

The Commission is accountable to Parliament and is funded by the Treasury.

Over the past decade the Commission has seen a stark decline in the central funding it receives from Government. Funding decreased dramatically, and has fallen by £8m since 2010. It will now be frozen at £20.3m a year until 2020, meaning a continued fall in the real-terms funding of the Commission.
It has been noted by charities, as well as representatives of the Commission, that these funding cuts are having an impact on the regulator’s ability to carry out its duties adequately. Jane Hobson, the Commission’s Head of Policy said last year “you’ve all seen the consequence of us getting less and less each year, because we’re not doing what we used to do... and although we’re taking lots of steps to do as much as we can with the little that we’ve got, there’s still a question mark about who pays.”\(^1\)

The Commission’s former Chairman William Shawcross gave an initial indication of the scale of potential funds the Commission might seek to raise from the sector at a meeting of the All-Party Parliamentary Group on Charities and Volunteering in 2016, however this has since increased from £5 million to £7 million, over the course of 12 months The most recent comments from the Commission, who are still yet to announce a permanent replacement for Shawcross, confirm that they will seek to implement charges, stating ‘at a time when public finances are tight, and along with practice from other regulators, the Commission believes it is fair that the charities make a modest contribution to a system that benefits them’.

With the publication of the consultation now imminent, we feel it is necessary to set out our concerns about how this policy may affect a sector which is already making great strides to improve its accountability and efficiency.

---

Problems with charging

Charities Aid Foundation does not support the proposal to charge charities a fee for the ongoing regulation and enabling work carried out by the Charities Commission. That is not to say that we are opposed to considering alternative options for additional funding, and we will explore some of those in detail later on. However, we do not believe that charging a fee will solve the financial and governance issues currently facing the Commission.

We believe that proposals to charge charities a fee raise concerns across a number of areas:

1. **Danger of reduced state funding**

   The driving force behind the decision to seek additional funding is undoubtedly the Treasury’s decision to cut back on direct funding for the Charity Commission. Whilst this funding cut is just one of many the Treasury has made across areas of public spending, it is certainly worrying that the Commission has had its budget halved in real terms in less than a decade.

   The Charity Commission’s response to the Lords Select Committee on Charities’ report published in January 2018 did confirm that the Treasury had clarified that any funding from [charging of] charities would be in addition to the existing grant-in-aid funding the commission receives rather than a replacement for it. However, can we realistically take this as a cast iron guarantee that the Treasury won’t continue to reduce state funding to the Commission, expecting charities to pick up the tab? It may well be a very tempting situation for a Government to feel justified in its reduction of funding when others are positioned to plug the gaps.

   It is also likely that once any fees are set, they will never be removed or reduced. This is a dangerous precedent to set, and one that suggests that the burden of fee payment will only grow over time.

2. **A threat to public trust**

   Trust in charities has been challenged in recent years. Indeed CAF’s latest UK Giving Report finds that just 50% of people believe that charities were trustworthy in 2016.
As a sector, we need to be working hard to improve our reputation and maintain trust in charities. That means that charities must act in a responsible, ethical and credible manner; but there is also a role for the Charity Commission to play.

The Commission states its number one priority to be: ‘developing public confidence in the charity sector.’ This seems incompatible with a scenario in which charities are policed by a regulator which they themselves pay for. Such an arrangement would, without doubt, impact upon the independence of the regulator and would further damage public trust in charities. People want to know that charities are behaving ethically, and they are right to expect the existence of an independent regulator working to ensure that is the case.

### 3. Donating to a regulator?

Linked to a discussion about public trust is a concern that syphoning off donations from a charity’s work to pay for a regulatory fee could potentially upset donors and make them less willing to donate. We have to ask how the public would feel about some of their donations going to the regulator. It is fair to say that they would most likely appreciate the existence of a regulator, but may very well question why their donations are being used to fund it.

There has been concern from other charities about whether introducing a fee would place an unnecessary financial burden on charities. We recognise this as a concern, but we do not believe that, in and of itself, it is a particularly telling objection. Where we believe the fee has potential for real harm is at the point at where it undermines public trust and confidence in donating.

In 2011, our research suggested that people’s perception was that it cost a charity 42 pence to raise £1 in income. By contrast, figures from the time showed the actual average cost of raising £1 was only 12 pence. More recent work by NFP Synergy told a similar story. On average people thought that 37% of charity income went on “admin”, 26% went on fundraising and 38% went to the cause – again far away from the estimates of what

---


charities actually spend. Regardless of the real costs, there is a very real danger that adding regulatory fees will only exacerbate a misleading perception amongst donors that too great a proportion of their donation is spent on “overheads”.

4. **Circular Gift Aid**

There are two principal reasons why charging fees to charities for regulation interacts negatively with Gift Aid, with both essentially coming down to a degree of complexity in the system. The first issue is one of simple logic. Gift Aid, as a tax incentive, can be articulated as tax expenditure: government is prepared to forgo a portion of its revenue effectively to procure agreed public goods. Given that this government expenditure accrues to charities, when charities pay fees to government they are in effect doing so with government money. Given that, unlike some other funding options, the way in which fees are charged has no associated regulatory benefit, it could be logical, although impractical, to reduce Gift Aid by the value of the funding deficit for the Commission.

The second way in which fees undermine Gift Aid relates directly to the impact of added complexity from a donor’s perspective. Looked at in an international context - as we did in great detail in our 2016 report, Donation States⁴ - the system of tax incentives for giving in the UK is extremely complicated. Our hybridised system combines grossed-up credits with additional deductions for higher rate tax payers and companies; and as such has neither the benefit of progressiveness offered by a wholly credit-based system nor the simplicity of a purely deductive system. The result of such a complex system is that understanding of, and therefore take-up of Gift Aid remains relatively low.⁵ Given this, it is not clear that finding savings from the more than a billion pounds offered in tax relief to donors would not be less appealing to donors than having to fund additional overheads in the charities that they support in the form of fees for regulation.

5. **A dangerous precedent**

Registration or annual reporting fees have been used in many nations to close the space for civil society, and to introduce barriers to the work of such organisations. We are not

---


suggesting that the intention of charging in the UK is to do the same, but we do believe that as a country which values its civil society, we have a duty to promote and project the work of charities as a positive example to our global neighbours.

UK policy, in all areas, can be (and indeed is) used by foreign governments to justify policies in their countries. This effect is particularly pronounced for policies relating to civil society; an area in which the UK is regarded as a global leader. This gives the UK an unparalleled sphere of influence on civil society policy globally. At a time, particularly in light of the decision to leave the European Union, when the UK will naturally be seeking to use all of its soft power tools for positive influence around the world, it is vital that we ensure we take account of the potential unintended consequences of changes in the relationship between charities and their regulator. In a statement following his follow-up visit to the UK in 2016, Maina Kiai, UN Special Rapporteur on the freedom of assembly and of association said;

“Many people around the world look to the UK as a model for democracy and human rights. The world notices when this country takes positive steps to strengthen its practice of human rights. But it notices even more when it moves in the opposite direction – restricting the space for democracy and human rights.”

There is no suggestion that the intent of introducing a fee would be to place a restrictive burden on civil society in the UK. However, if we want to protect the space of civil society abroad, then we must seriously consider how such a move might be perceived and used in other countries.

6. **Unchartered territory**

There are examples of industry regulators that charge fees for members. However, if we look more closely at these, we find that very often the organisations paying fees are doing so in order to be able to carry out income generating activities.

This is a clear distinction between how other regulators operate and how the Charity Commission operates. The Charity Commission registers and regulates organisations that

---

are set up for public benefit. Charities do not make a profit, their only purpose has to be charitable, and they work to help society in a number of ways. In this respect they are very different to private energy companies, rail industry operators or banks which make millions of pounds in profit every year and exist for the benefit of consumers and shareholders. Whilst a fee may be appropriate for organisations like these, is it really appropriate for a charity? Furthermore, many charities already pay for registration with other regulators in order to carry out activities – should they be additionally charged for the simple fact that they are charitable?

There is also an additional point to consider here: many charities receive public funding. Money may come from grant funding, or in return for service delivery, and it may come from local or central government, but the point is that it would seem rather illogical to furnish charities with a portion of government funding, only to ask them to pay some of that back to a government regulator.
Alternative funding arrangements

We understand and accept that the Charity Commission cannot fulfil its obligations without securing additional funding, but we believe that there are several options other than a fee paying structure which should first be explored.

1. Introduce a late filing charge

More than 10,000 charities missed the deadline to file their annual accounts or annual return with the Charity Commission at the start of this year. Currently, the Commission reminds all organisations about the deadline, and those charities with an income of more than £1m get two reminders. If a charity fails to file it receives a default notice from the Commission.

The point here is that late filing is not only indicative of poor governance; it also costs the Commission money – as they have to chase late filers, and extend their administration burden over a wider timeframe than anticipated.

Fining those organisations who file a late account or return would do three things – it would act as an incentive for them to file on time, thus prompting good governance; it would reduce the administrative and cost burden on the Commission; and it would bring in additional funding for the Commission. This is not a new idea. In his 2012 review of the Charities Act 2006, Lord Hodgson of Astley Abbotts recommended that “Government and

---

the Charity Commission should also give thought to the costs, benefits and logistics of introducing late filing fines.”

An average fine of just £250 for the over 10,000 late filers could recoup the £5 million targeted over the next two years based on recent figures; of course, the Commission could also consider a fining system where the fine is linked to the size of the organisation, to ensure that smaller charities are not disproportionately impacted. The charging of fees for late filing by Companies House provides an example that could be partly or wholly emulated. Company accounts must be filed within nine months of the end of the financial year (it is currently ten for charities). Companies are fined £150 for filing up to a month late, £375 for filing up to three months late, £750 for filing up to 6 months late and £1,500 for filing up to a year late. These fees are doubled if accounts are filed late two years in a row.

Clearly, as fines motivate more charities to file on time the money generated by fines would also reduce but such an improvement in governance would reduce the cost of chasing late filers to the Charity Commission. Whilst it is difficult to project the net impact on the Commission’s finances of this change in the long term, and there are concerns about how difficult it could prove to collect some of these fines, it would result in a short term windfall. Moreover, late filing charges would motivate an improvement in governance, fulfilling an important regulatory objective.

2. **Charge for services**

As mentioned earlier in this document, there are examples of other organisations, such as HM Land Registry, which charge a fee for a number of services required by users. This is a model that could be easily replicated by the Charity Commission for a number of existing services, as well as the consideration of new ones.

The Commission could charge for such things as:

---


• Document pre-checking: not unlike the checks conducted before an individual submits a passport, this could be a service provided to check annual accounts or other important documents before they are submitted.

• Trustee vetting: the Commission could play a role in helping charities to properly vet their potential trustees for a small fee.

• Research products and services: the Commission has a vast amount of data underpinning its activity, there is an option to consider charging for the access and use of some of it, but also introducing new research products which could support the sector.

• Providing advice: Under Section 110 of the Charities Act, the Commission may give advice to Trustees regarding their charity often on very complex matters. There is nothing in the legislation that requires this advice to be given freely, and the introduction of a small charge could help to raise significant revenue for the Commission.

The benefit of this final option is that it actually enhances good governance at the same time that it brings in additional funding. One of the Commission’s roles is to support the sector; to help charities operate as effectively as possible, develop their compliance and accountability as well as their self reliance. Introducing an option where a charity can, for a small fee, receive support and assistance on areas of governance and accountability, would be a good outcome for everyone. Income from such services could grow to provide income in the long term as income from late filing charges falls with increasing compliance. Conversely, there is undoubtedly a conversation to be had about whether charities that are found to have acted inappropriately should be asked to make a contribution to the costs that the Charity Commission incurs for that specific investigation.

3. **Use Libor fines**

There has been some criticism in the past about the use of Libor fines to fund charities without going through transparent processes, with concerns raised about whether it amounts to a politicisation of the process. Whilst the extra money flowing in to charities is welcome, there have been calls from the charity sector requesting that the Government
think clearly about what it wants to achieve with the money, and where it might be better spent. One option might be to use Libor fines to fund the sector as a whole – and perhaps a good place to start would be with the Charity Commission. Instead of distributing Libor fines to several different charities, the government could set it aside, for as long as it is available, for use by the Charity Commission to fund its work supporting the wider sector through outreach and training work and making better use of and communicating analysis of its data.

4. **Increased funding from the Treasury**

The need to look for external funding sources is driven by the fact that the Charity Commission has had its funding from central government halved in the past decade. One very obvious way to remove the need for charging would be for the Treasury to commit to funding the Commission in line with what it needs to operate.

This may seem like an unlikely scenario, but in the aftermath of an election and with domestic policy priorities likely to shift post-Brexit, it is entirely possible that we will see government reprioritise spending commitments over the course of the next few years. In addition, as a new government looks to bring communities and the country back together after several very divisive public votes, it may be possible that charity support from government sees a resurgence. Such resurgence must be coupled with a commitment to fund the sector adequately, and that should start with an increase in funding for the Commission.
Charging in other sectors

It has been noted by others, including the Commission’s CEO, that the self-funding of regulators does exist in other sectors, and therefore a precedent exists for such arrangements.
Along with the Charity Commission, there are 20 other non-ministerial government departments, with a variety of funding structures across them, including examples of self-funding. A number of these organisations supplement their central government funding with levies or various income sources including charging for advisory services.

For example, HM Land Registry charges a selection of fees for various types of services - ranging from £3 for official copies of documents to £20 for most other fees. Several large departments like Ofqual are funded centrally via government. However, organisations like Ofgem and the Water Services Regulation Authority recover costs from license fees paid by organisations being regulated, whilst the Office of Rail and Road is funded by the rail industry through a combination of licence fees and safety levies. It is worth noting that many of these charging structures operate on a sliding scale based on either the size or turnover of the organisation being regulated, or in the case of HM Land Registry, the value of land being registered.

All of these organisations are incredibly different, in terms of size and structure and in relation to the sector they administer. It is therefore difficult to draw direct comparisons with the Charity Commission. However, it is fair to suggest that they all offer some tangible alternative funding options which the Commission may wish to consider emulating before it resorts to simply charging fees.

Looking beyond non-ministerial government departments, there are other examples of funding models adopted by UK regulatory bodies. The Financial Conduct Authority (FCA) and Prudential Regulatory Authority (PRA) are just two examples of regulatory bodies which charge fees; both are regulators in the financial services industry.

The FCA, with an annual budget of £452m is funded by fees collected from members of the financial services industry. The PRA, wholly owned by the Bank of England, also collects fees from members in order to fulfil its statutory duty. Fees are collected by the FCA on behalf of the PRA.

However, whilst the two provide some comparison, there are several differences which make this comparison less direct. Both regulate an industry which is for-profit, and thus the
payment of any fee to the regulator is not the same as in the charity sector where money would be diverted away from beneficiaries to cover such costs.

The FCA operates independently of UK Government and is a company limited by guarantee, whilst the PRA is owned by the Bank of England and operates as a quasi-government regulator. They are very different beasts to the Charity Commission - an organisation accountable to Parliament and funded by the Treasury.

The PRA's fee structure is based on collecting money from firms across six "fee blocks". The amount payable by each fee block depends on the cost of regulating that category of firms; within each category the fee paid by each firm depends on their size; and to further complicate the fee structure, firms that could cause the greatest harm to the stability of the UK financial system are the main contributors to the PRA's funding needs. Whilst the Charity Commission may choose to charge fees based on size (like the newly established Funding Regulator), it could not possibly introduce a structure whereby charities pay differing amounts dependent on which area they operate in, or further still dependent on the risk associated with their organisation.

Whilst it is useful to look at the funding models for regulators in other sectors, it is important to bear in mind that, precluded from generating profit and subject to state expenditure through Gift Aid and tax exemption, charities have a very different relationship with the state to private companies; and this has a bearing on the appropriateness of some options for funding. It is true to say that many charities already pay fees to other regulators – to Ofsted and the CQC, for example. Whilst this demonstrates precedence for charities being charged for elements of regulation, as the principal regulator of charities we believe that the Commission should follow a different path.
**Examples of charging internationally**

The notion of charging organisations for governance is not a new one. However, whilst (as we will see) the practice is relatively common in other sectors in the UK, it is unprecedented in the Charity Commission’s long history. Therefore we must look abroad to find comparative examples where charities fund their regulation through fees.

There are numerous international examples of regulatory resources being generated by charging fees to charities. However, in many cases, the level of economic development, level of development of the sector or political context of the country make comparisons with the regulatory space in England and Wales tenuous. For instance, there are several examples of regulators charging to either establish a charity or to perpetually re-register in nations with an unenviable reputation for repressing civil society. In these cases, both the size of the fees and the process for re-registration are designed to, or at least have the effect of, preventing access to official charitable status and associated benefits and freedoms. For example, in Uganda charities are expected to re-register every year, paying a fee each time.\(^{10}\) Even more strikingly, Belarus – arguably Europe’s worst country in terms of repression of civil society - registration fees are prohibitively expensive, amounting to twice the rate charged to commercial entities.\(^{11}\)

Some less economically developed nations use fees to fund regulation in response to funding gaps far more serious than those encountered by the Charity Commission. Countries with huge charitable sectors but limited government resources face an asymmetry of state capacity for regulatory provision versus demand that far outweighs that of England and Wales. India, for example, with its population of 1.2 billion is estimated to have as many as 2 million NGOs. With only around 1% of the population paying tax (most fall below the threshold) this leaves the state incapable of footing the bill for regulation.

---


However, even with fees for registration starting as low as RS50 (about 60p) and ranging up to a maximum of RS 1,000 (about £12.40), only an estimated 2% seek registration.\(^\text{12}\)

In the Philippines, state regulation evolved from the sectors’ own self regulation. As such, the sector funded regulation before the state took over the responsibility and continued to collect fees. Other relatively poor countries charging fees for regulation include Bangladesh, which requires charitable organisations to pay three separate registration fees under both the Societies Regulation Act, the Companies Act as well as to the NGO Affairs Bureau\(^\text{13}\) and Kenya, which charges small fees for registration and annual filing.\(^\text{14}\)

Clearly, Britain’s level of economic development and the size and sophistication of civil society in England and Wales dictate that we seek more established economies with more developed civil society institutions when looking for comparative examples of charity regulation. Examples in wealthy and generally non-repressive nations do exist. Many others have considered charging fees only to decide against it. In Australia a Treasury paper at the beginning of the policy process for establishing a charity regulator floated the idea, but it went no further.

The countries that have charged fees must be seen within their very specific context and judged on the effect of implementation:

- Ireland has made provision in its Charities Act to charge for the annual filing of charity returns. It consulted on the appropriate level of such fees in 2013 but to date has not implemented them. This may be because it is still at the early stage of trying to get charities to update their details to populate the register at this moment in time.
- In Germany, the supervision of foundations occurs at Länder (state) level. Small administration fees are charged for initial creation, with additional fees charged for changes in statutes etc. However, this only covers a small proportion of authority

---


budget for regulation, which is state funded (authorities are part of the Ministry of Justice at Länder level).

- In Finland authorities have been charging annual fees since 2014, with a sliding scale from 120 Euro – 500 Euro. There are also additional fees for registration services/changes to statutes etc.

- In Liechtenstein, fees are charged for registration and amendments of statutes etc. Charities do not pay for supervision – there is no annual fee. However in case of interventions by the authority, costs will be recovered.

- The New Zealand Charities Commission (now Charities at the Department of Internal Affairs) does not charge fees for registration. However, a small fee (NZ$ 76 – about £42) is charged for filing annual returns. New Zealand used to have an independent regulator but it was disbanded after only operating for a very short time following a change of government. Regulation, its independence and the cost of supervising charities became politicised.

- Canada does not charge fees to register or the file annual returns. They do, however, charge a $500 re-registration fee for charities who fail to submit returns on time, lose their registered status revoked and wish to reapply.

- In Singapore a charge of SGD 65 (£37) is charged for filing of annual returns. However, this must be seen alongside the highly progressive tax environment for giving in Singapore where government offers a 300% tax deduction for donors giving to registered entities.

- United States rules (which, importantly, are only applicable to private foundations but not public charities) outline an excise tax on the net investment income of most domestic private foundations plus additional taxes which essentially serve as fines on prohibited activities. These rules are unpopular and have been widely criticized.

---

**Conclusion**

In light of the continued reduction in its funding, the Charity Commission is under increased pressure to explore alternative sources of revenue. The Commission’s preferred option for increasing funding appears to be to charge charities for its services and we can expect a consultation on this issue in due course.

As already stated, CAF does not believe that charging a fee is the right, or most appropriate way of raising additional funds. The notion of charging fees does not arise out of any strategic regard for improving charity governance or enhancing the sector; it is simply borne of financial necessity. Introducing such fees would likely aggrieve both those organisations required to pay and their donors, who want as much of their money as possible to go directly to a cause.

We welcome the Charity Commission’s plans to consult on this issue as we believe that there are several other, better options which would allow the Commission to raise the additional £5m per annum required, and that should be explored before a decision is taken to charge charities. Charging for late filing, re-registration or advice would not only bring in money, but would act as an incentive for good governance, and in the long run help to reduce costs at the Commission. Using Libor funds or other Government funds would allow the Government to fund the Commission adequately and would relieve the pressure for charities to pay. All of these are more acceptable options than a straightforward usage charge and we would urge the Commission and the Treasury to consider these options before making a final decision.