

The Charities Statement of Recommended Practice 2026: A summary

The Charities Statement of Recommended Practice 2026 (SORP) was published on 31 October 2025 and will be effective from 1 January 2026.

Key changes

1. Introduction of 3 reporting tiers
2. New reporting thresholds
3. Charity Governance Code
4. Accounting and Disclosure Changes

1. The Tiered Framework

From 1 January 2026, charities will report under one of three tiers, depending on income:

- **Tier 1:** up to £500,000
- **Tier 2:** between £500,000 and £15 million
- **Tier 3:** above £15 million

There are now three tiers of reporting based on charity size, aiming to make requirements more proportionate and manageable for smaller charities. An example of this is that Tier 1 charities are not required to prepare a cash flow statement and it is now optional for those in Tier 2.

2. New Reporting Thresholds

From accounting years ending on or after 30 September 2026:

- The income threshold for an independent examination increases to £40,000 and for the examiner to be professionally qualified increases to £500,000.
- Receipts and payments accounts can be used up to £500,000 of income.
- The audit threshold rises to either £1.5 million of income or both £500,000 of income and £5 million of gross assets.

3. Charity Governance Code

The Charity Governance Code has been refreshed for 2025. It adds stronger focus on ethics, inclusion, board culture and decision-making. It is still voluntary but is increasingly seen as a benchmark for funders and regulators alike. Charities should update governance documents to reflect the new Code (e.g. their policies and codes of conduct).

4. Accounting and Disclosure Changes

Please see overleaf for the key accounting and disclosure changes to the Charities SORP and what this means for your finance team.

We're here to help

We understand that charity regulation can be complex, not only due to recent changes but also because of variations across different jurisdictions. It's important that you feel confident in your reporting and that your financial statements are compliant. If you'd like to learn more about how we can support you, please contact us using the details below or speak to your usual Blick Rothenberg adviser.



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Accounting and Disclosure Changes

Key changes to the Charities SORP	What does this mean for your finance team
<p>Income recognition</p> <p>Charities will need to differentiate between exchange transactions, where goods or services are provided in return for income; and non-exchange transactions, like grants or donations where income is received with no direct service(s) being provided. This is to ensure charity income is recognised in a way that is consistent with commercial accounting principles.</p> <p>For both types of income, the new five-step model set out in FRS 102 will be used. Charities will need to:</p> <ol style="list-style-type: none"> 1. Identify whether there is a contract(s). 2. Identify distinct obligations in the contract. 3. Determine transaction price. 4. Allocate the transaction price to distinct obligation in the contract. 5. Recognise revenue when (or as) the entity satisfies a distinct obligation. 	<p>Finance teams should begin reviewing all funding streams including grants, donations, and contracts against the new five-step revenue recognition model and start mapping whether the timing of income recognition may change.</p> <p>Trustees should review policies and procedures to ensure they remain appropriate.</p>
<p>Grant and commitments accounting</p> <p>The SORP introduces specific guidance in Module 10A on how grant commitments should be recognised where there was limited guidance in the old SORP based around “constructive obligation principle”.</p> <p>The new SORP provides more structured guidance, clearer distinctions, and better transparency and should lead to more consistent and accurate reporting of grant income in one charity and the commitment in another.</p> <p>Income will need to be recognised when any conditions or performance obligations attached to a grant have been met and now there is explicit guidance on treatment the grant commitment.</p>	<p>Finance teams must track grant conditions, recognise the expense only when obligations are fulfilled. They should ensure contract terms are clear and aligned with recipients, update systems accordingly and maintain clear documentation to support accurate and compliant reporting.</p> <p>Finance teams should ensure the fundraising team are aware of the changes so that grant awards are structured so there is no deferral of income.</p>
<p>Leases</p> <p>Most leases including those for property, equipment, and vehicles will now be recognised on the balance sheet, providing a clearer view of the charity’s long-term commitments with a corresponding ‘Right of Use Asset’.</p> <p>The lease obligation will be shown at the net present value of the lease payments, discounted using either the rate implicit in the lease or an appropriate estimate of the charity’s borrowing rate.</p>	<p>Finance teams should identify all leases and review key details, including lease terms, payment schedules, renewal options.</p> <p>Trustees/finance teams may need to assess whether an implicit interest rate is stated in the lease, or if not how to calculate a borrowing rate if they were to finance the asset.</p> <p>Additionally, finance teams should also be aware that recognising the ‘Right of Use Asset’ may increase total assets to a level that pushes the charity above the audit threshold.</p>
<p>Trustees’ Annual reports</p> <p>The Trustees’ Annual Report will now require more depth on the impact of charitable activities and not just a description of what has happened in the year, with more consistent use of measurable KPIs. There will be a greater focus on areas such as ESG, risk management, going concern, and future plans and the risks associated with achieving those plans.</p>	<p>For finance teams, this means strong record-keeping, early planning and close collaboration with operational management and trustees.</p>
<p>Reserves policy and fund accounting</p> <p>There should be a clearer reconciliation of restricted, designated and general funds, accompanied by a more detailed narrative in the trustees’ report on the purpose of the funds. This will need to explain how restricted funds have been applied for charitable purposes, as well as the plans for designated funds and reserves.</p>	<p>Finance teams and Trustees should review the reserves policy, align it with strategy and risk and ensure fund structures are tracked and reported clearly.</p>
<p>Related parties and key management pay</p> <p>Disclosures will now be more detailed to improve transparency. The salary bandings for higher paid employees requires additional narrative explaining and justifying how remuneration decisions for higher paid staff support the charity’s performance and objectives.</p>	<p>Finance teams will need stronger record keeping, more detailed information must now be collected on related party transactions, trustee interests and higher paid employees (including prior year comparatives).</p>