

## Impact Reporting and the Charities SORP - Discussion Briefing

Prepared by: CIPFA and Reviewed by the Charities SORP-making body, August 2021

### Purpose of the briefing paper

To assist the engagement strands and Charities SORP Committee in their reflections on the current approach to impact reporting within the SORP and to undertake a problem-solving exercise to identify:

- Whether there needs to be further emphasis on impact reporting, requiring the charity to demonstrate the difference it is making.
- Should the requirement to report on impact be extended to all charities?
- If an increased emphasis on impact reporting is required, is this something that should be covered within the SORP or is it more suitable as a separate piece of guidance?

A preferred option is required with a recommendation as to what changes there should be to the SORP, or other guidance required, if any.

### Reflection - what does the SORP say about impact reporting?

Previous SORPs have considered different formats for reporting on the difference a charity's activities make but all have done so on a voluntary basis.

The 1995 SORP (paragraph 56) suggested information on 'figures (where available) demonstrating the impact the charity is making...'

The 2005 SORP (paragraph 53) suggested: 'Where qualitative or quantitative information is used to assess the outcome of activities, a summary of the measures or indicators used to assess achievements should be included'.

Impact reporting is covered within the reporting requirements on Activities and Performance within the current Charities SORP (FRS 102).

Module 1 "Trustees' annual report", of the SORP contains the following guidance within sections 1.20 and 1.40 to 1.45 of the SORP;

The guidance within 1.20 applies to all charities.

- 1.20 The report must contain a summary of the main achievements of the charity. The report should identify the difference the charity's work has made to the circumstances of its beneficiaries and, if practicable, explain any wider benefits to society as a whole.

Further guidance for larger charities is contained within sections 1.40 to 1.45 of the SORP.

- 1.40. Good reporting sets out how well the activities undertaken by the charity and any subsidiaries performed and the extent to which the achievements in the reporting period met the aims and objectives set by the charity for the reporting period. Good reporting provides a balanced view of successes and failures along with the supporting evidence and demonstrates the extent of performance and achievement against the objectives set and the lessons learned.
- 1.41. In particular, the report must review:
- the significant charitable activities undertaken;
  - the achievements against objectives set;
  - the performance of material fundraising activities against the fundraising objectives set;
  - investment performance against the investment objectives set where material financial investments are held; and
  - if material expenditure was incurred to raise income in the future, the report must explain the effect this expenditure has had, and is intended to have, on the net return from fundraising activities for both the reporting period and future periods.
- 1.42. The report should provide a balanced picture of a charity's progress against its objectives. For example, it may explain progress by reference to the indicators, milestones and benchmarks the charity uses to assess the achievement of objectives.
- 1.43. In reviewing achievements and performance, charities may consider the difference they have made by reference to terms such as inputs, activities, outputs, outcomes and impacts, with impact viewed in terms of the long-term effect of a charity's activities on both individual beneficiaries and at a societal level. Charities are encouraged to develop and use impact reporting (impact, arguably, being the ultimate expression of the performance of a charity), although it is acknowledged that there may be major measurement problems associated with this in many situations.
- 1.44. In reviewing its achievements and performance, the charity should include a summary of the measures or indicators used to assess performance when it provides evidence of the achievements in the reporting period. Explaining the outputs achieved by particular activities can be helpful, particularly when numerical targets have been set.

Examples of such targets include the number of beneficiaries to be reached by a particular programme, or the number of events or interventions planned as part of an activity. However, information on activities, outputs, and outcomes (or impacts) should always be put in the context of how they have contributed to the achievement of the charity's aims and objectives.

- 1.45. The report should comment on those significant positive and negative factors both within and outside the charity's control which have affected the achievement of its objectives and, where relevant, explain how this has affected future plans. These factors might include relationships with employees, service users, beneficiaries and funders and the charity's position in the wider community.

FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* does not include detailed requirements for narrative reporting in general or the reporting of impact.

### Additional guidance

An influential publication that informed the approach taken in the Charities SORP (FRS102) was 'Principles into Practice' (2012) published by CFG, ACEVO and NPC that provided recommendations on how charities should communicate their impact:  
<https://www.gov.uk/government/collections/accounts-monitoring-charity-commission>.

The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 contains requirements for larger companies to include, within the strategic report, a description of how the directors have promoted the success of the company. This description contains the requirement to report on key finance performance indicators and other KPI's including information on environmental and employee matters. The FRC has provided [Guidance on the Strategic Report](#) which provides guidance on the Companies Act 2006 requirements.

What is the reporting difference between 'all' and 'larger' charities?

As set out above, the requirements of sections 1.40 to 1.45 of Module 1 only apply to larger charities.

### Engagement strand feedback during the exploration stage

#### Impact reporting

The following were the issues raised by the different engagement strands in the feedback received in February 2021.

#### **Professional and Technical Strand A**

- Should reporting impact be a requirement for all charities?

- It was observed that reporting impact is currently a “may” in the SORP and only for large charities. It was suggested that this requirement should be enhanced, and the question was raised as to whether this should be a requirement for small charities who may have difficulty in reporting impact? Therefore, the reporting impact in terms of the difference a charity makes may need to be very flexible in its application.

### **Professional and Technical Strand B**

- Impact reporting requirements should be introduced to enhance reporting by charities on the difference they are making.
- Charities should be making more use of the annual report and should not, as is the case in some instances, seek to avoid including impact or similar information elsewhere so that it falls outside the scope of the external scrutiny report.

### **Trustees**

- [There should be] more focus on reporting impact rather than activity (supported by trustee survey results).

### **Academics and Regulators and proxies of public interest**

- Renewed or enhanced focus should be placed on proper impact reporting by charities, given that this is an area of interest to academics, regulators and the public alike.

## **Impact reporting**

### **Observations from the SORP Committee:**

At the February 2021 meeting when SORP Committee members were invited to share their key conclusions on topics that had arisen from engagement strand feedback and that should inform the reflection stage, the committee considered that two strands had identified this topic as a priority. Four stands had raised the point regarding a focus on impact reporting for all charities. The following comments were made by the Committee:

- The Committee was of the view that a lot of work had been undertaken on this topic for some time. It is a very difficult topic to cover, it was also considered that if the term ‘impact reporting’ was used there may not be much engagement. A different approach might be needed.
- A Committee member commented that the SORP may not need to cover this topic in substantial detail. It might be possible to use or signpost guidance outside of the SORP. Guidance may be greatly influenced by the size of the charity and the sector it operates in. Impact reporting is influenced by soft data and by many other factors outside the actions of the charity. So, impact reporting will always be nuanced. The SORP should be very clear that presenting activities and outcomes (impacts) is central to the story of the charity.

- In terms of assisting trustees to present their impact reporting, it might be worthwhile referring more to what the charity has done and what difference it has made. It might be that guidance has to be careful about the language used so that charities understand what impact reporting is trying to achieve.
- There are several organisations that may be useful to signpost to from the SORP which may give different suggestions based on size.

The Committee agreed to take forward the topic of impact reporting to the next stage.

### Relevant SORP research findings

The Accounts monitoring review for the SORP Committee of 9 November 2019, titled “Are charities explaining the difference they make?”, looked at 102 Trustee annual reports filed with CCEW for the 2017 financial year. Of this sample they found that;

- Few trustees went beyond the minimum to make explaining the impact of their charity’s work an important part of the trustees’ annual report. Of the seven charities (7%) that did so, six focussed on the difference the charity had made to the lives of the people the charity was set up to help. Another focussed on the charity’s impact on wider society. None covered both aspects.

The PwC report on the “PwC Building Public Trust Awards 2019 - Reporting in Charities”, presented to the Charities SORP Committee, 9 November 2020 concluded that;

- Charities should be bold and adopt a mindset of openness in their reporting: in the charity’s purpose, how it measures its impact, in the challenges it faces and to new ways of bringing its reporting to life. Charities should continually evolve and innovate their reporting, thinking carefully around being more focused, to ensure they remain effective in conveying their purpose and impact in an open, authentic and accessible way. This will help charities to engage more effectively and build trust with their stakeholders.

In terms of the interest of general readers and the public, research evidence provided by OSCAR and CCEW based on opinion polling was that knowing what difference a charity had made was important to public trust:

[https://www.charitysorp.org/media/649771/131120\\_paper\\_1\\_public\\_trust\\_presentation.pdf](https://www.charitysorp.org/media/649771/131120_paper_1_public_trust_presentation.pdf). The findings included:

- What drives trust for the public is knowing if charity money has been well spent, what impact it has had and whether the charity is being transparent about these things.

## What needs to be done now?

### Step 1- Making the case for change - a 'basis for conclusions'

At this stage, there is a need to decide:

- i) whether any changes are required to the impact reporting requirements specified in the Charities SORP, and
- ii) what those changes might be to improve the understanding of the users of the accounts or to assist accounts preparers with the decisions and judgements required to report on the difference the charity has made to its beneficiaries.

### Step 2 - Advising the change required to the SORP

Having made the case for change, the detailed amendments required to the SORP need to be specified. Consideration should be given in as much detail as possible for impact reporting. If no detail is given, the conclusion drawn is that the detail is left wholly to the discretion of the SORP Committee and SORP-making body.

#### **Undertaking an assessment of the impact (savings or costs on the preparer and benefits or disadvantages to the reader)**

The FRC will require an impact assessment but until the implications of change are worked through the SORP framework, the impact is unlikely to be clear and so this will be considered at the drafting stage of the process.

### Step 3 - Recommendation

The case made by each engagement strand or combination of strands will inform the deliberations of the SORP Committee and so there needs to be a clear recommendation from the engagement strands and the SORP Committee.

Following evidence provided by the engagement strands the SORP Committee will have its own discussion about what needs to be done and taking the evidence and views from the process, the Committee will settle on a recommended approach for drafting the SORP based on the evidence presented.