

Feedback from Engagement Strand and Working Groups on Impact Reporting

Engagement Strand: Trustees
A. Options Considered by the Engagement Strand
<p>The engagement strand considered the following options:</p> <ul style="list-style-type: none"> • Option 1: Make no changes to the existing SORP • Option 2: Introduce different thresholds by which different sizes/complexity of charity arrangements would capture additional reporting requirements • Option 3: Encourage better use of visual and digital information to enable the charity to tell its story • Option 4: Refocus the SORP to achieve a better (equal) balance between what a charity has achieved and what it has spent (financial and non-financial performance).
B. Advantages/Disadvantages of Options Considered
<p>The engagement strand expressed the following views:</p> <ul style="list-style-type: none"> • The SORP should encourage preparers to include a range of infographics to better inform readers of a charity's performance. Some data sets could be subject to augmented requirements in terms of format and presentation to ensure essential facts are communicated in a consistent manner to help understanding of a charity's performance and to aid benchmarking. However, any required new content should be accompanied by the removal of other unnecessary or out of date recommendations in order not to add to the work of trustees. • The SORP could play an important role in encouraging better or wider use of information technology to present and report a charity's performance. • The SORP Committee should consult on, develop and publish a guiding philosophy or principles for the evolution of Charities SORPs, including links to national accounting standards developments and international accountancy standard developments. This would include having an eye on future developments to 'future proof' or anticipate future reporting concerns and ensure the SORP is fit for purpose in meeting the needs of a wide range of stakeholders. • The reporting requirements should give equal consideration to the importance of reporting both non-financial and financial performance in the annual report and accounts. • The reporting requirement should encourage the reporting of a charity's performance to be more rounded, linking it with the charity's approach to and management of risk.
C. Conclusions
<p>All of the options 1 – 4 are recommended, subject to the following additional suggestions:</p>

- **Option 1:** Specific guidance and resources for trustees on how to better incorporate impact reporting in their formal disclosures. For example, prompts or key questions for trustees could help inform board discussions evaluating how the charity has performed. This could be linked to reporting on the specific governance code or standard applied (as many codes will include clauses relating to public benefit and impact).
- **Option 2:** A proportionate approach to impact reporting should be considered, with an emphasis on encouraging trustees to 'show their workings' to demonstrate the board has considered their current operating/business model and different ways of working, in accordance with their governing document and the law.
- **Option 3:** It is noted that Companies House does not currently accept annual reports and accounts with such infographics, but that changes are being implemented. This is welcomed by the engagement strand as it is not always financially possible or acceptable for charities to produce two versions of the annual reports and accounts (one for Companies House and the other for a broader stakeholder base).
- **Option 4:** Trustees should be encouraged to be honest in the reporting of their charity's successes and setbacks to be more honest and transparent reporting of the charity's performance and impact. The trustees' annual report is probably the best place for this information and provides the optimal opportunity to balance the narrative and financial information in annual reports and accounts. Additional resources could be created to provide templates and frameworks for trustees to adopt to improve the narrative reporting on non-financial performance and impact.

D. Other comments

- The engagement strand's research identified a desire amongst respondents for the SORP to have more focus on reporting public benefit and impact rather than activity.
- Where charities disclose similar information in different formats there should be more encouragement to ensure the data presented is consistently across the different formats. This would greatly improve the quality and consistency of data presented across different platforms and enable the better use and regard for hyperlinks and cross-referencing.

• Engagement Strand: Large charities

A. Options Considered by Strand

The following options were considered by the engagement strand:

- **Option 1:** to make no changes to the existing SORP requirements
- **Option 2:** to consider whether use of the term 'may' or 'should' is appropriate
- **Option 3:** to consider whether impact reporting should apply to all charities

B. Advantages/Disadvantages of Options Considered

The engagement strand set out that the rationale for the option for impact reporting applying to all charities was that all charities, large and small, should be able to demonstrate the difference the charity is making. However, for small charities, with limited resources, any approach needed to be proportionate with minimal expectations or pressure.

C. Conclusions

The engagement strand made the following concluding remarks:

- There was no consensus for significant change. The group were surprised that the current SORP guidance was presented as a 'may' or 'should' set of provisions. The engagement strand suggested that this be changed to 'must' going forward but would add that there should be proportionality applied, both for size and nature of charity, and that examples and guidance would be helpful.
- It was noted that whereas large charities can and probably should give their best effort at impact reporting, smaller charities can only do so in a way that their resources permit.
- The engagement strand commented that it would be helpful to have some examples of Impact Reporting, trying to impose consistency is hard as charities differ, charities need scope to decide what impact reporting 'looks like' for them. Examples of charities that do this well and guidance may be useful.

D. Other Comments

The engagement strand noted that a member did not support the extension to all small charities. The engagement strand member also suggested should the current prescriptions of the SORP using 'should' should instead be referred to a 'may' for these practitioners to allow for optionality.

Engagement Strand: Smaller charities and Independent Examiners

A. Options Considered by Strand

The engagement strand set out the following options:

- **Option 1:** to maintain the current SORP provisions.
- **Option 2:** to consider whether a change of emphasis on impact reporting is required by the SORP.

B. Advantages/Disadvantages of Options Considered

The engagement strand commented:

- Problems start to arise when consideration is given to how that should be applied, for example, proving causal links between interventions and changes to people's lives or behaviours etc. This becomes extremely difficult in chaotic systems where multiple factors will be at play or where charities are looking at making a difference over the long term.
- In some situations, it simply may not be possible to establish causal links between intervention and outcomes but that on balance the fact that a service merely exists and is used may be enough in terms of playing a part in a wider system of support.
- Small charity annual reports use a variety of approaches, many use quantitative data as an indicator of impact. Qualitative data will be open to the charity's bias in selecting that data that supports its impact.
- It was concerned about formulaic reports and boiler plate type statements and the difficulties that could be encountered if more formalised impact reporting and measurement becomes a requirement

C. Conclusions

On balance the engagement strand was of the view that trustees need 'more than a nudge' to undertake impact reporting and should be required to reflect and report on the difference their charities are making. The engagement strand therefore suggested the following changes to the SORPs recommendations by proposing changes to paragraph 1.20

The engagement strand suggested the following:

Current wording for Paragraph 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."

Proposed wording **changes highlighted in bold:**

*"The report must contain a summary of the main achievements of the charity, **linked to its objectives**. The report **must** identify the difference the charity's work has made to the circumstances of its beneficiaries and, if practicable, explain any wider benefits to society **or comment on the impact it has made**."*

D. Other Comments

The engagement strand referred to the findings from the recent research paper (McDonnell et al (2021) *Smaller charities, SORP and issues of financial accounting and reporting*. Research report for Power to Change, Lloyds Bank Foundation, and Charities Aid Foundation page 47). This indicated that whilst '*the TAR is seen by both charities and their advisors as being very important for accountability and transparency*' that '*despite this, in some charities, trustees were disengaged from the process of drafting the TAR, seeing it as an exercise in compliance*'.

Engagement Strand: Academics, regulators and proxies for the public interest

A. Options Considered by Engagement Strand Member – Proxy for the Public Interest Member

- **Option 1:** Additional clarification of the existing SORP
- **Option 2:** Update the wording of the SORP to clarify expectations

B. Advantages/Disadvantages of Options Considered

The engagement strand member recommended the following:

- the SORP requires charities of all sizes to (a) articulate their intended impact and outcomes, for example using a theory of change; and (b) report on progress towards their intended impact and outcomes, their learning and areas for improvement evidenced using proportionate data. In other words, the SORP's prescriptions should be changed to 'must' rather than 'should' or 'may'.

- it was opposed to scaling the requirement to charity size. It expressed the view that 'proportionate data' enables charities of all sizes to build a sensible picture of progress, and critically, to learn and improve to make an impact. By 'proportionate data' it meant carefully considering what data would be most useful for learning, what already exists, the practicalities of data collection and the resource available. For example, established programmes with lots of existing evidence may only need light touch monitoring whereas an established, but poorly evidenced programmes may require a more comprehensive evaluative enquiry. Genuinely novel programmes may need to start with real-time user feedback to allow refinement. the SORP highlights six principles of good impact reporting - clarity, accessibility, transparency, accountability, verifiability, and proportionality – and five different types of data - user, engagement, feedback, outcomes, and impact
- the SORP acknowledges that impact reporting is nuanced and is not always straightforward and then signposts freely available, practical resources
- the Charities SORP Committee review and update the wording in the existing SORP to clearly differentiate impact reporting from more general guidance on narrative reporting and remove unintended barriers
- detailed changes to the SORP provisions see row D.

C. Conclusions

The engagement strand member made the following conclusions the SORP should:

- set a clear, realistic expectation that requires charities of all sizes to: articulate their intended impact and outcomes, for example using a theory of change; and report on progress towards their intended impact and outcomes, their learning and areas for improvement evidenced using proportionate data.
- signpost freely available, practical resources to help charities translate these principles into practice.
- include updated wording see row D below
- in the longer-term consider developing definitive guidance on impact reporting akin to the approach adopted by the International Accounting Standards Board in IFRS Practice Statement 1: Management Commentary, ideally aligning with international initiatives as set out in the IFR4NPO Consultation Paper.

D. Other Comments

- Paragraph 1.43 defines impact as “... *the long-term effect of a charity’s activities on both individual beneficiaries and at a societal level...*” and then goes onto state “...*Charities are encouraged to develop and use impact reporting (impact, arguably, being the ultimate expression of the performance of a charity) ...*” This could lead charities to collect and report on impact data only. This sets a very high bar that may be out of reach for most charities.
- Paragraph 1.44 states “...*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...*” The engagement strand member considered that the SORP should give equal emphasis to both qualitative and quantitative measures.

Engagement Strand: Academics, regulators and proxies for the public interest
A. Options Considered by Engagement Strand Member – <i>Academic member</i>
The engagement strand member suggested that the requirement to report on impact is extended to all charities
B. Conclusions
The engagement strand member made the following conclusions: <ul style="list-style-type: none"> • the requirement to report on impact should be extended beyond large charities • the wording of the SORP should be reviewed to ensure it is clear about what is expected • guidance outside of the SORP would be useful to explain in further detail what would be required.
Engagement Strand: Academics, regulators and proxies for the public interest
A. Options Considered by Engagement Strand Member – <i>Regulator A</i>
This member of the engagement strand was of the view that impact reporting is sufficiently important in the above context that it should be one of the areas where the SORP goes further and expects more, traded off against simplifications in other areas if necessary. Impact reporting should become mandatory, at some level, for all charities reporting under SORP (see further recommendations below). The engagement strand member also commented: <ul style="list-style-type: none"> • The requirement to report on impact should be given more prominence and distinguished from reporting of activities; relevant headings should clearly refer to impact. • Other elements of the language should be reviewed to see if they create any barriers, and it should be emphasised in SORP why impact reporting is so fundamental. • The current requirements for smaller charities (paragraph 1.20) would benefit from clarification, specifying more precisely what charities should do (without increasing the level of reporting required) <p>The engagement strand member suggested strengthening the current provisions in SORP. Paragraph 1.20 currently states that all charities:</p> <ul style="list-style-type: none"> • should identify the difference the charity’s work has made to the circumstances of its beneficiaries – we recommend this be strengthened to a ‘must’ • should, if practicable, explain any wider benefits to society – we suggest that “if practicable” allows too much latitude and should be removed. <p>The provisions of paragraphs 1.40-1.45 include that larger charities (income over £500k):</p> <ul style="list-style-type: none"> • <i>‘may explain progress by reference to the indicators, milestones and benchmarks the charity uses to assess the achievement of objectives’</i> [paragraph 1.42]– the engagement strand member recommended this be strengthened to a ‘should’ • <i>‘may consider the difference they have made by reference to terms such as inputs, activities, outputs, outcomes and impacts (with impact viewed as the charity’s long-term</i>

effect on both individual beneficiaries and at a societal level) [paragraph 1.43]– the engagement strand member recommended this be strengthened to a ‘should’

- ‘*are encouraged to develop and use impact reporting*’ [paragraph 1.43]– the engagement strand member recommended this be strengthened to ‘expected’
- ‘*should include a summary of the measures or indicators used to assess performance*’ [paragraph 1.44] – the engagement strand member recommended this be strengthened to a ‘must’.

The engagement strand member sought views on:

- whether the SORP Committee could consider if there is scope to create more synergy between impact reporting and the legal requirement for charities to report on public benefit (the Charities (Accounts and Reports) Regulations 2008), although the latter do not strictly require trustees to assess or report on the difference that their charity has made.
- whether there is scope to suggest in SORP that charities might choose to use impact data from their accounts and annual report on their websites and in other promotional material to highlight their achievements and make this information readily accessible to members of the public (who may not feel confident to read charity accounts).

On balance, the engagement strand member was of the view that the SORP can only provide a partial solution to the issues. A more holistic approach, beyond the SORP consultation, focussing purely on impact, appears to be needed.

Engagement Strand: Academics, regulators and proxies for the public interest

A. Options Considered by Strand – Regulator B

The engagement strand member did not consider there needs to be further emphasis within the SORP on impact reporting. The member considered that for smaller charities detailed impact reporting will be difficult for them because they do not have the resources or systems required. It may be difficult for them to measure wider impact in any meaningful way, and this could lead to over or under reporting impact. The member was not of the view that further guidance was required outside the SORP as there are already many places charities can seek assistance with this. There are also bodies such as Evaluation Support Scotland who work with charities to help them measure and report on their impact where needed.

Engagement Strand: Professional and technical group A

A. Options Considered by Strand

The engagement strand considered the following options:

- **Option 1:** whether there needs to be further emphasis on impact reporting, requiring the charity to demonstrate the difference it is making.
- **Option 2:** should the requirement to report on impact be extended to all charities?

- **Option 3:** 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?

B. Conclusions

The engagement strand made the following conclusions:

- there was agreement that reporting on the charity's achievements/lack of achievements should be mandatory for all charities and that a requirement for more comprehensive information applying to all charities should be included in a revised SORP.
- the term "impact reporting" was not generally understood by trustees and needed to be 'de-mystified' and explained more clearly in guidance or not be used at all.
- if it was not considered appropriate to contain more detailed guidance on impact reporting in SORP, another proposal was to do a thematic review around different types of impact reporting for different sizes of charities or to have a separate reporting standard specifically for impact reporting.
- the 'Future plans' section (paragraphs 1.49, 1.50 SORP) of the TAR could also be used to set out a charities strategy and to assess what was achieved and what was not achieved.

C. Other Comments

The engagement strand considered that case against change:

- the effect of including impact reporting requirements in the SORP which must be applied by all charities will add detail to charity accounts. This could result in large trustees' annual reports especially considering further additional requirements that may arise e.g., sustainability reporting. It was recognised that there were other frameworks for dealing with impact reporting e.g., Sector governance codes, say, in the case of housing charities.
- there was a recognition that if there was an increase in the reporting requirements for impact reporting in statutory accounts themselves would be subject to audit which would increase the cost burden for charities.

Engagement Strand: Professional and Technical Strand B

A. Options Considered by Strand

- See section C

B. Advantages/Disadvantages of Options Considered

- See section C

C. Conclusions

The engagement strand made the following conclusions and recommendations:

- To undertake impact reporting successfully, charities must first develop a strategy. This will ensure that trustees and staff have a common vision and common purpose. Impact

reporting requirements could therefore lead to improvements in charity governance. In addition to improve public reporting, impact reporting requirements may encourage charities to develop additional measures for internal reporting purposes

- While the engagement strand expressed reservations about use of the term 'impact reporting' it accepted that introducing another term may not be helpful. It was of the view that all charities applying the SORP should be required to produce impact reports within the trustees' annual report.
- Consideration should be given to renaming the 'Achievements and performance' section of Module 1 of the SORP and the trustees' annual report, for example, as 'Achievements and impact'. This would emphasise a shift from impact reporting being good practice to being a requirement.
- A definition of impact reporting should be developed and given prominence in paragraph 1.20 which applies to all charities.
- As a minimum, a 'must' should replace the 'should' in paragraph 1.20. The wording for larger charities should also be strengthened to formally introduce impact reporting requirements. Subject to tiering decisions, smaller charities should be signposted to the requirements for larger charities as good practice guidance. The engagement strand favoured a drafting convention for the SORP which contains requirements and guidance, guidance being material which is currently described using 'should' or 'may'.
- Members of the engagement strand had different views on the level of prescription there should be around how to undertake impact reporting, but all members were keen to avoid creating a 'tick box' approach to compliance as far as possible.
- SORP requirements should be drafted so that they are proportionate both in terms of a charity's size and the complexity.
- It will be important to strike a balance in the requirements and guidance on impact reporting which ensures that charities develop measures which are reported on consistently year on year and therefore which ensure that progress towards meeting the charity's longer-term objectives is reported objectively. It will be important that any changes to measures made over time remain objective and that changes to measures are not used to obscure the facts when things have gone less well than intended.
- Some members of the engagement strand would like to see additional guidance included in the SORP. Another member was of the view that separate guidance may also be worthwhile
- The Charities SORP Committee should consider, in the first instance, whether to mandate that all charities produce at least one metric/ KPI which is quantitative, on a 'comply or explain' basis, in addition a requirement to include qualitative information about the difference the charity has made under the umbrella of 'impact reporting'.

D. Other Comments

- See above.

Engagement Strand: Major funders, donors and Government & Public Bodies

A. Options Considered by Strand

- **Option 1:** Reflect on whether there needs to be further emphasis on impact reporting, requiring the charity to demonstrate the difference it is making.
- **Option 2:** Should the requirement to report be extended to all charities?

- **Option 3:** If increased/improved impact reporting is required generally is the SORP the right vehicle for its inclusion, or is it more suitable as a separate piece of guidance?

B. Advantages/Disadvantages of Options Considered

Many charities now produce an additional document sometimes called an annual review whereby they produce a much 'glossier' user friendly document which they see as a tool to assist fundraising.

Impact appears to mean many different things to different people. It is also not a finite 'thing' that can be accurately measured and legislated for, as it is not only reporting statistics, which should be verifiable, but often reporting outcomes which may not be quantifiable in monetary terms.

By legislating for this within the SORP, there will also be onerous responsibilities placed on auditors.

Some preparers of accounts currently report their 'impact' in a corporate way insofar as they include a long list of KPIs and then report against that with what was or wasn't achieved by the Charity in the reporting period. Mistaking this for 'impact' reporting.

The 'impact' a charity makes may also not necessarily be able to be reported on a 'reporting period' basis as set out in 1.40, as often impact will be achieved several years after the commencement of an initiative. Some Trustees also have difficulty in distinguishing between 'impact' and 'activity'.

It can be a very subjective matter, which in turn does not provide good comparisons from one charity to another.

As funders, when reviewing applications for grants, the engagement strand expressed the view that they generally place the highest regard on the accounts contents, but these are not the only documents that reviewed. They are regularly provided with additional 'glossy' documents and also review charities' websites, where there may have more explanations written in a completely different style for the general public regarding achievements and the impact, they feel they have made. The engagement strand would welcome signposting to websites within the trustees' annual report, but whilst they appreciate that websites are hardly ever included in an auditor's report, they would not want to see web links outlawed because of that fact.

Currently many charities include a bland statement about public benefit just confirming that they have complied with public benefit rules and that they have had regard to the Charity Commission's public benefit guidance. This statement also only applies to charities within England and Wales and the engagement strand would recommend that clause 1.18 is extended to all jurisdictions. If the SORP guidance could be expanded to explain – with some examples – how a charity could report how they have complied with public benefit principles and how these have guided and affected their mission and vision, this would also enhance their 'storytelling' but would also probably mean more to a lay reader than just bland technical statements.

C. Conclusions

- Overall, the engagement strand was reluctant to recommend further detailed inclusion of impact reporting within the SORP because it is a subjective topic, and the accounts primarily deal with numerical reporting.
- The engagement strand would like to see extensions and better guidance within the SORP regarding Public Benefit disclosures and we feel that by extending these requirements that the charity will be better able to 'tell its story' and report impact without placing burdens on auditors.
- The engagement strand recommended extending the current SORP requirements including public benefit reporting – subject to other legislation - to all jurisdictions.
- The engagement strand recommended upgrading of the current reporting requirements from 'may' to 'should' but not a further extension to 'must'.

Charities SORP Working Group (A)

The working group expressed the following views:

- There are considerable decisions to be made regarding impact reporting, for example
 - whether reporting is a "should" or "may" requirement
 - whether the reporting requirements apply to only large charities or to all charities
 - whether changes are required to the SORP or external guidance.
- There is strong consensus in our group that all charities need to report on the difference their charity makes.
- It did not necessarily consider this reporting must be within the accounts but there is a strong feeling that the impact reporting is more relevant and key to charity reporting than much of the other content requirements in the trustees' annual report. We wonder whether a greater emphasis could be placed on impact reporting than some of the other trustees' annual report reporting requirements.

Charities SORP Working Group (B)

The working group expressed the following views:

- The topic was important.
- This is a matter for the trustees' annual report and not an accounting issue, although charities should be referring to accounting figures in their impact reporting.
- There is a lack of consistency. More guidance and clarity would help charities report on achieving their charitable purpose.
- Examples must demonstrate that there should be a link between the charitable purpose, the charity's activities and what difference the charity has made. This is required to avoid charities simply listing the activities they have undertaken.
- The SORP need to encourage charities to report on "what difference they have made".

- The SORP needs to be clear that charities should include context (e.g. trends, comparatives) in impact reporting.
- The approach to impact reporting should be a principles-based approach. Charities should not see impact reporting as a compliance exercise, therefore the SORP should not for example provide checklists of matters to include.
- It noted that there may not be comparability in impact reporting as every charity has its own unique story to tell.
- It would be worth looking at the questions asked in the CIC34 report.
- It was noted that paragraphs 1.20, 1.40 and 1.41 of the SORP already contain a lot of the points noted in working group discussions, therefore the working group clarified what additional content is needed in the SORP as:
 - an alignment/education piece
 - greater reference to significance and/or materiality throughout
 - more on the broader context of the charity.