

Charity Impact Reporting: Informing the Forthcoming Charities Statement of Recommended Practice

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Phase Two Report

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Key takeaways

Positive impact

How charities can tell a more complete story about their value

Funders increasingly seek information from charities about the impact of their work on service users and society. Many charities are now providing impact information – but there's scope to ensure this reporting is more balanced and authentic, boosting public trust in the sector.

Charities can...

1 Look beyond the hurdles

Some charities see impact reporting as more difficult than it needs to be, according to funders. Many charities already publish case studies or testimonials from service users; impact reporting might involve capturing this data in a more systematic way.

2 Strike a balance

At present, charities are more likely to produce qualitative data about their impact. Tilting the balance towards more quantitative information offers a more rounded picture and avoids the impression of bias in reporting solely positive stories.

3 Tailor reporting to fit the project

Where a charity has multiple projects, it can aggregate data to make reporting easier, and prioritise critical information. Where it is working to long-term durations, the impact reporting should emphasise this, explaining why the impact may take longer to show.

4 Show the workings

By boosting the validity of their processes, charities can strengthen the legitimacy of their impact reporting. Expert input can help to develop metrics and data collection practices, perhaps through collaboration at sub-sector level.

Funders can...

5 Be clear what's required

Funders should match their reporting expectations to the level of funding they provide. By providing targeted questions and guidance in their application forms, interim reporting and acquittal forms, funders can steer charities' impact practices.

6 Build capacity

Supportive funders can help charities improve the way they measure and report impact. Funding not specifically allocated to charitable activities may be used to develop impact practice.

7 Pass on the lessons

Funders may be able to learn from charities they fund whose impact reporting is exemplary. Some funders also work to demonstrate their own impact on service users and society. In each case they are well placed to spread best practice among other grantees.

Sector supporters can...

8 Provide the tools

Supporters in the sector can support learning about impact practice – for example, through workshops for charity trustees. They may also be able to support funders, for example by helping to standardise reporting formats.

9 Apply the numbers

The accountancy profession is well placed to help. For example, charity finance directors, treasurers and other finance trustees can champion impact reporting by applying the principles of financial management – so enhancing public trust and confidence.

Foreword

A greater emphasis than ever before is being placed on the quality of financial and non-financial reports and how they work together to inform an entity's stakeholders. There is growing recognition that the combination of an annual directors' report (and strategic report where applicable), or trustees' report, and financial statements should tell an entity's story: a story which goes beyond its financial performance and the strength of its balance sheet. This is arguably even more important in reporting by charities, where the continued support of, and accountability to, funders and donors is dependent on clear communication of how charitable activities are affecting the beneficiaries and causes they are designed to help.

This focus on non-financial reporting can be seen in the evolution of front-end reporting requirements for companies over the last 16 years or so, and the greater consideration now given to identifying an entity's stakeholders their information needs. Changes in non-financial reporting have been largely driven by regulation rather than standards. This too is changing, with the creation of the International Sustainability Standards Board and the development of stakeholder-focused sustainability standards. In August 2023, the UK government set out its intention to create UK Sustainability Disclosure Standards (SDSs), representing a partial shift in the traditional model for setting non-financial reporting requirements for use by UK companies.

As the push for improvements in the quality of reporting extends to charities, the focus is on the standards that will drive that change. The charity sector is no stranger to a standards-based approach to non-financial reporting. Historically, charities preparing financial statements which provide a true and fair view have applied not only regulations, but also the Charities Statement of Recommended Practice (SORP) and trustees' annual report (TAR) requirements. Charity financial statements are not just about earnings per share; the TAR is needed to tell the story of the charity in a way that the financial statements alone cannot. The current edition of the SORP falls short of requiring impact reporting within the TAR. However, it does require charities to set out their achievements and performance.

As attention moves to sustainability, climate change, responsible business and stakeholder-focused reporting, the charity sector has the opportunity to take the lead on the social aspects of sustainability. Supplementing the TAR requirements, there is scope for charities to develop impact measures and to report publicly on the difference they have made to the lives of their beneficiaries and wider society. Understanding what does and doesn't deliver impact for beneficiaries can help charities become more effective. Additionally, as sustainability reporting becomes commonplace, charities will need to develop a range of measures on both climate change and the social aspects of their work, to meet the information needs of funders and donors.

This report from Alpa Dhanani, Evangelia Varoutsas, Julian Woodward and Penny Chaidali from Cardiff University (Prifysgol Caerdydd), and Carolyn Cordery from Victoria University of Wellington, is set against this background.

It is the second output of a two-stage project commissioned by ICAS that aims to identify and explore current impact reporting practices by UK charities. The objective of the project is to understand the motives, processes, barriers and benefits of developing impact reporting, and ultimately to assess whether impact reporting communicates charities' achievements appropriately.

The first stage report analysed how charities develop and use social impact measures and impact reporting. This second stage report aims to improve understanding of the current social impact disclosures within charities' TARs and separately published impact reports, and to consider how funders and donors use these reports to satisfy their accountability requirements and make future funding decisions.

Executive Summary

In 2021, as part of its role to serve the public interest, the Institute of Chartered Accountants of Scotland (ICAS) commissioned a two-phase research project into impact reporting by UK charities. The purpose of this project was, first, to provide evidence and recommendations to the Charities Statement of Recommended Practice (SORP) Committee to enhance its requirements and guidance around charities' performance in the trustees' annual report (TAR); and secondly, to develop and nurture charities' efforts to embed impact reporting and effectively convey their impact upon the lives of service users and society more broadly.

This report presents the results of Phase Two. This phase sought to gain an in-depth understanding into the value of impact information for funders¹, and for funders' support of charities' impact practice (i.e. the measurement and reporting of impact) more generally. It also sought to examine the extent to which charities report on their impact, as well as the nature of the information provided in their external impact communication. It adds further depth to the findings in Phase One² and, in this respect, can be read as either a standalone report or in conjunction with the first report published in 2022 (Chaidali *et al.*, 2022). Impact, defined as the longer-term, more sustained difference that charitable interventions and programmes make to the lives of individuals and society more broadly, alongside financial reporting, constitutes a critical mechanism of accountability that enhances public trust and confidence in the sector. While our first report highlighted both the impetus for, and challenges associated with, charities' impact practice, this second report examines more closely major funders' engagement with impact practice, as well as charities' endeavours to disclose impact information to external audiences, including funders. To this end, detailed semi-structured interviews were conducted with 14 major funders. The content of TARs, voluntary annual reviews (ARs) and impact reports (IRs) for 2021 and 2022 was also analysed for impact, along with the dedicated impact webpages of 21 charitable organisations.

Below are the key results emerging from Phase Two:

¹ The term funder as it is used in this report refers to a large and professionally-oriented fund provider and is distinguishable from a donor - a small, individual giver. Within the former category, there are multiple types of fund providers, including foundations, philanthropists and public sector commissioners.

² The Phase One report examined UK charities' impact measurement and impact reporting practices. Breadth was gained through a sector-wide online survey seeking views from UK charities that measure and/or report on their impact and those that refrain from such activity, and depth through more detailed semi-structured interviews with 20 organisations.

- Funders are increasingly seeking impact information from charities – from enquiry level right through to grant acquittal. Nevertheless, differing funder expectations may mean that a unified approach to impact reporting for charities is unlikely to be achievable.
- Funders recognise that despite the available guidance, charities may still find it difficult to undertake impact practice, especially if they are small-scale charities. Supportive funders help charities to engage in impact practice as well as trying to streamline their own processes to make the process easier.
- Some funders are also undertaking their own impact practice. Inevitably, this nurtures impact development among their grantees.
- While almost two-thirds of the charities reported their impact in their respective TARs, more charities reported information on their activities, outputs and outcomes. In addition, of those charities that reported on impact, less than 10% of the physical coverage on variables in the input-impact framework was concerned with impact. Furthermore, some of the charities appeared to be ‘incidental’ reporters, which is to say they incidentally reported on their impact through case studies of or testimonials from service users.
- There were no significant changes in impact reporting practices between 2020 and 2021. These results may reflect the relatively slow pace of development in what Chaidali *et al.* (2022) described as charities’ impact journey.
- While some charities prepare additional voluntary documents (ARs/IRs) to communicate with external audiences, TARs are clearly the mainstay of impact information insofar as more charities use this medium to share this type of data. However, the relative volume of impact information in TARs as compared to other variables in the input-impact model is smaller than that found in ARs/IRs.
- Charities tend to report both qualitative and quantitative impact information to external audiences. However, the emphasis tends to be on the former, which may be, at least in part, a by-product of the aforementioned practice of ‘incidental’ reporting. Moreover, the reports lack clarity over charities’ use of externally-validated instruments and/or sector-developed metrics of impact, as well as the processes they follow to collect impact data. These tendencies may weaken the legitimacy of organisations’ impact practice.
- Overall, although it is evident that a sizeable proportion of charities have embarked on an impact journey, there is nevertheless scope for further development, since one-third of the organisations studied have yet to report in impact terms. Moreover, among those that do report, there is scope to adopt a more balanced approach – reporting both successes and failures to maintain the authenticity of annual reporting. These developments would enhance charity impact practice and raise public confidence in the sector.

We make recommendations at a charity, sector, funder and sector supporter level.

Charity level recommendations:

- As suggested in Phase One, charities must look beyond the hurdles, that is, past the problems associated with impact measurement, in order to effectively engage in impact practice. Funders believe that embarking on an impact journey need not be complicated. Indeed, some charities appear to inadvertently report on their impact via their TARs and other voluntary platforms in the form of case studies and anecdotal evidence. This suggests that there may be scope to capture such impact data systematically.
- Funders are keen for charity trustees to recognise the value of impact practice and engage in the process, for the mutual benefit of the organisations themselves, their beneficiaries and funders. Charities need to respond positively to this.
- Phase One recognised the importance of both qualitative and quantitative data for showcasing charities' impact. Given that charities place more emphasis on the former, they should endeavour to adopt more of a balanced view between the two types of data. This will both showcase the true breadth of impact generated through their activities and avoid potential bias in their reporting, since qualitative case studies and testimonials invariably convey positive news stories.
- Depending upon their size and nature, charities may be engaged in an extensive number of activities with distinct characteristics and duration, including long-term projects. Reporting becomes complicated because charities may not be able to (i) accommodate impact reporting across their breadth of projects and (ii) showcase impact within the confines of the annual reporting cycle.

In this light, charities should endeavour to report impact information at an aggregate level for different segments of activities, and to prioritise critical and decision-relevant information. Moreover, charities should emphasise the longer-term durations of their projects and the resulting slow pace of demonstrating the impact of these interventions.

- Charities engaged in impact practice should seek to enhance the validity and verifiability of their processes, to strengthen legitimacy of the impact exercise. As suggested in Phase One, sub-sector collaboration – to co-develop metrics and data collection practices with expert input – would be valuable. Moreover, charities should reflect this quality of their practice when they report to external audiences.

Funder level recommendations:

- Output-related data has dominated funding decisions insofar as it serves as an indicator of the reach of charitable interventions, but progressive funders believe that impact practice can function as a natural extension of such reporting, albeit in proportion to the level of funding. It need not be as complicated as charities deem it to be.
- Funders report variability in impact reporting practices. We encourage funders to steer charities' practices, through targeted questions and guidance in their pro-forma applications, interim reporting and acquittal forms. Reporting expectations should be proportionate to the level of funding provided.
- To optimise the effectiveness of their charities' interventions, supportive funders believe it is critical to support them in building capacity and addressing any areas of weakness. These funders may provide a mixture of restricted funding, that is spent on charitable

activities, and unrestricted funding, which can be used to develop impact practice. Sector funders, more generally, should engage with capacity building/funding for impact.

- Funders may have opportunities to learn from observing the charities they support whose impact reporting is exemplary, and pass on this learning to their grantees more widely.
- Some funders (particularly philanthropists) are also seeking to demonstrate impact themselves, namely the difference their funding is making to the lives of service users and to society at large. If more funders overtly seek to demonstrate the impact of their own activities, then they can nurture impact practice amongst grantees.

Sector supporter recommendations:

- Supporters within the sector may wish to support impact practice through learning sessions, such as workshops and round-table discussions for trustees. They may also work with diverse funders through similar platforms to enhance impact practice through grant-making activities, including the standardisation of reporting formats to avoid duplication of effort for charities.
- The accountancy profession is also well placed to assist the development of the sector's impact practices, and so enhance public trust and confidence. For example, charity finance directors, treasurers and other finance trustees are well positioned to champion impact reporting by applying the principles of financial management.

1. Introduction and context

Charities are an essential feature in today's society, working towards the amelioration of need and the protection and maintenance of heritage and culture, and seeking to increase our enjoyment of life. In their efforts to bring about societal and environmental change, many charities draw upon donated and subsidised resources, alongside benefitting from taxation and other public sources associated with the impact they intend to deliver. Charities generally enjoy society's trust, but media coverage of poor practice and deficiencies in charity reporting and governance has led to calls for greater accountability in the sector. One such accountability response is that charities must demonstrate the impact of their activities and interventions.

UK trustees and their charities are generally required to comply with the Charities' Statement of Recommended Practice (SORP)³ (Charity Commission of England and Wales, 2019). Developed and endorsed by the three UK regulators in the sector (Charity Commission for England and Wales (CCEW), Office of the Scottish Charity Regulator (OSCR) and Charity Commission for Northern Ireland (CCNI)) to increase public trust and confidence in the sector, the SORP guides charity reporting by providing requirements and recommendations for trustees' annual reports (TAR). The SORP encourages charities to report on their performance and achievements, including their impact, and calls for 'a balanced view of successes and failures along with the supporting evidence' (Charity Commission of England and Wales, 2019, p.18).

To enhance charities' impact reporting, this research project examined charities' impact practice, that is, the measurement and reporting of impact. Delivered in two phases, Phase One involved conducting a survey of 70 charities and semi-structured interviews with 20 charities to gain, respectively, a broad and deeper understanding of charities' impact practice (see Chaidali *et al.*, 2022). Phase Two, the results of which are presented in this report, sought to:

- gain an in-depth understanding of the value of impact information for funders and funders' support for impact practice, based on semi-structured interviews with 14 large and diverse funders, including local government and policy makers and charitable and corporate foundations; and
- examine the extent to which charities report on their impact, as well as the nature of this information in their TARs and additional voluntary documents and/or websites, through carrying out a content analysis of the reporting practices of 21 purposely-selected charities committed to impact practice.

The report is structured into five sections, including brief literature reviews on impact reporting from a funder perspective and charity impact reporting, along with the research approach, results (presented over two sections) and recommendations.

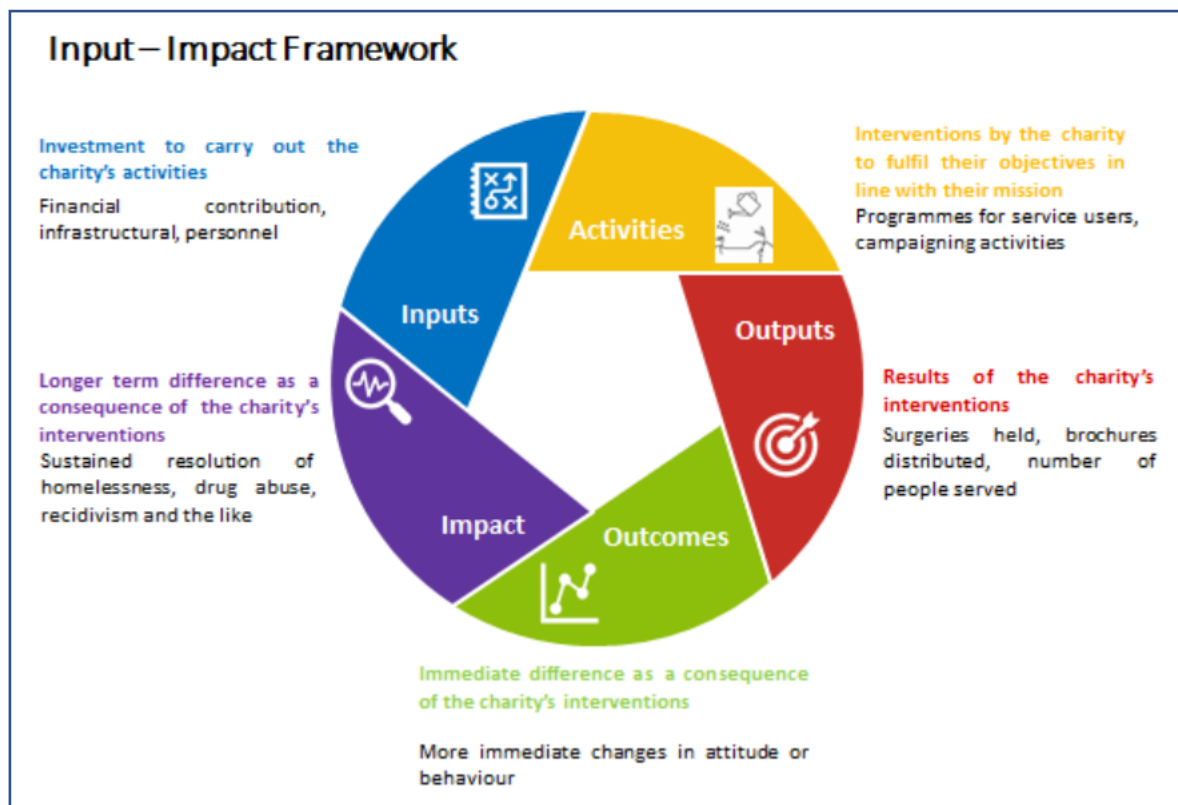
³ SORP is not mandatory for all charities in the UK: its role depends on the size of organisations and/or the legal structure.

2. Background and literature review

Financial information and externally scrutinised financial statements, although critical to making charities accountable, offer only a partial picture insofar as they do not meaningfully convey the achievements and successes of charitable organisations to external audiences. Referring to such reporting as a ‘tendency to accountancy’ rather than genuine ‘accountability’, Edwards and Hulme (1996, p.968) emphasise the importance of charities reporting their social impact. However, as noted in the Phase One report (Chaidali *et al.*, 2022), there is no consensus over what precisely constitutes impact.

However, following Chaidali *et al.* (2022), for the purposes of Phase Two of the research, impact is defined as the sustained difference that charitable interventions and programmes make to the lives of individuals and broader society. This definition flows from the input-impact framework (New Philanthropy Capital, 2012, Charity Commission for England and Wales, 2019) (see Figure 2.1) that was developed for the non-profit sector. The framework distinguishes between the more immediate outcomes of charitable interventions and the longer-term differences that such activities and projects can make to service-users and society at large. A similar performance framework, the 3E (Economy, Efficiency and Effectiveness) framework, has been applied to the public sector in order to analyse societal benefits in terms of value for money (efficiency) and the enactment of the intended changes (effectiveness).

Figure 2.1 Input–impact framework of non-profit performance



Building on the survey and interviews carried out in Phase One that sought to understand charities' views on impact reporting, Phase Two (the subject of this report) examined the value of impact information for funders; their support in enhancing impact practice; and the extent to which charities present such information in their reports and the nature of these disclosures. This section briefly engages with academic and practitioner literature in the two corresponding

areas: (Sect. 2.1) performance reporting, including the impact from a funder perspective; and (Sect. 2.2) charity performance reporting, including impact reporting.

2.1 The value of impact information to funders

Charities' accountability reporting to funders

Charities operate in environments that are shaped by the expectations of multiple and complex stakeholders, which include beneficiaries, funders and donors, local authorities and governments, boards of trustees and paid staff. Among these stakeholders, funders have high accountability expectations (Dhanani, 2009). Although funders come in a variety of forms – central governments (including NHS), local authorities, philanthropic foundations and individual donors – they share a common desire that funding be adequately accounted for and used in a prudent manner that furthers charities' missions and visions (Mayhew, 2012, Paterson and Jackson, 2021). This common ground enables funders to determine how best to allocate funds to ensure the maximum public impact (Corvo *et al.*, 2022). Moreover, charities should be honest and transparent, and demonstrate trustworthiness to their funders (Duval *et al.*, 2015) when striving to meet 'the multiple and potentially conflicting accountability demands from ...[their] diversity of stakeholders' (Hall and O'Dwyer, 2017, pp.2-3).

Charities face increasing pressure to demonstrate and report on their performance and programme outcomes, to the extent that today 'grants are seen less and less as gifts or contributions than they are as investments' (Easterling, 2000, p.3). The increased focus on outcomes and demonstrable difference can be attributed to: (i) the surge of funding from local authorities and public bodies, and the consequential increase in public scrutiny this brings (Dicke, 2002, Whitaker *et al.*, 2004, Cupitt and Mihailidou, 2009); (ii) increased publicity of charity financial scandals that has destabilised beneficiaries' and funders' confidence (Paterson and Jackson, 2021); and (iii) increased competition for limited funds (Cupitt and Mihailidou, 2009, Ashley and Faulk, 2010, Curley *et al.*, 2021). Consequently, in addition to financial reporting, funders often also require grantees to report on their achievements and successes, including their activities and outcomes, and testimonials from service users (Braverman *et al.*, 2004, Ostrower, 2006). Many charities use performance measurement systems to measure and report on their progress (Paterson and Jackson, 2021), and in turn demonstrate to their funders how funds have been used (Cordery *et al.*, 2019).

Evaluation and impact assessments

Evaluation may well meet funders' informational needs and hold charities accountable, but it also offers learning opportunities for charities – informing them as to what is working and how interventions may need to be changed to enhance their impact (Cherin and Meezan, 1998, Preskill and Torres, 2000, Chaidali *et al.*, 2022). Internal performance measurements also provide a means through which charities can communicate with a broader range of stakeholders – beyond large funders (Corvo *et al.*, 2022). Cupitt and Mihailidou (2009) observe that charities tend to collect and use both outcome and impact information internally, whereas funders still emphasise output data. However, funders are gradually shifting towards outcome data (Cupitt and Mihailidou, 2009, Cupitt and Ellis, 2022). Indeed, in the New Zealand context, Yang *et al.* (2017) note that whilst funders do not ask for the 'more difficult-to-capture long-term outcomes' (i.e. impact), they prefer 'more challenging and subjective outcome' measures in place of 'easier-to-measure' outputs (p.177).

Shaw (2003) and Mayhew (2012) reflect on collaborative relationships – partnerships – between funders and charities, explaining that evaluation practices for funders’ benefit are not only accepted by charities but can, in fact, enhance their internal decision-making. Indeed, whilst charities may see evaluation as a surveillance tool to fulfil accountability expectations (Behn, 2001), it may also facilitate mutual accountability that, in turn, allows partners to learn from one another (Whitaker *et al.*, 2004). Through dialogue, partners can develop mutual reporting, in which both parties can come to an agreement on performance measures that are of most interest to their stakeholders. Such collaborative funder-fundee relationships also remove the need for external verification (Whitaker *et al.*, 2004). To enable these partnerships, Shaw (2003) explains that social aspects – namely trust, flexibility, understanding, shared mission, communication and friendship – are critical.

Funders’ support

Recognising the difficulties associated with capturing impact compared to outcomes, charities have called for better support, in the form of training, resources, peer support and learning, to help them to embark on their impact journey (Cupitt and Mihailidou, 2009, Chaidali *et al.*, 2022, Cupitt and Ellis, 2022). Funders have a key role to play in terms of building capacity (Cupitt and Ellis, 2022), working with charities to develop their infrastructure (Mayhew, 2012), and also up-skilling via training, workshops and paid external mentoring (Yang *et al.*, 2017). Moreover, Yang *et al.* (2017) report on funders’ efforts to align their reporting requirements for common grantees; specifically, philanthropic funders have aligned their requirements more closely with those of government funders in order to develop a common language for the charities they co-fund. Ultimately, this serves to ease the burden of performance reporting. Simultaneously, the Institute For Voluntary Action Research has reported on a growing number of funders who are looking beyond individual projects to instead offer flexible unrestricted funding (Cairns *et al.*, 2021).

Tensions and issues

Charities have noted that mandated, funder-driven and funder-designed grantee reporting can lack internal relevance and usefulness (Edwards, 2002, Cupitt and Mihailidou, 2009). This, in turn, leads to tension between the funders’ reporting requirements and charities’ practical needs in the design of monitoring and performance measurement systems. Such situations can result in data being ‘collected only symbolically’ (Ebrahim, 2002, p.103); the diversion of charities and their funds away from their missions (Clayton, 1994, Sen, 1999); and duplication of efforts, as charities seek to capture data for funders and their own internal decision-making. Consequently, Ebrahim (2002) reports that there is organisational resistance to implementing specific funder-led information systems, with funders challenged on the suitability of the requirements they place upon charities. Even in instances where there is interest in developing shared measurements, hurdles such as ‘aggregation, compatibility between systems, and compliance with GDPR’ (Cupitt and Ellis, 2022, p. iv) can hinder evaluation practices. Furthermore, there is an underlying concern that if innovative efforts are unsuccessful, reporting ‘poor’ performance may lead to charities losing their funding (Easterling, 2000). Hence, when writing grant acquittals to report on their use of funds, charities may downplay negative events that ‘put ...[them] at a disadvantage with funders’ (Ebrahim, 2002, p.104).

2.2 Charities’ performance reporting

Early research into charity reporting sought to understand charities’ financial reporting practices. Bird and Morgan-Jones (1981), for example, noted there was considerable variation in fundraising charities’ reporting, which ultimately led to the development of the SORP – first

published in 1988. Subsequent studies have assessed charities' adoption of the 1988 SORP and successive iterations, and while they have identified examples of good practice, they have also noted a failure to comply with the guidance (Ashford, 1989, Hines and Jones, 1992, Williams and Palmer, 1998).

Regarding charities' achievements and performance, Connolly and Hyndman (2003), using a decision-usefulness framework, investigated charities' disclosure patterns related to background and performance indicators aligned with their activities. Their study suggested that whilst charities generally provided background information and therefore the context upon which to assess their performance, only 29% and 9% reported information on effectiveness and efficiency, respectively, the two key criteria of the 3E framework on which they asserted users judge performance. In a follow-up study, in an effort to assess issues associated with reporting transparency and accountability, the CCEW (2004) analysed the 2003 TARs and annual reviews (ARs) of 200 of the top UK charitable organisations. The study noted that a substantial number of charities opted to present more (voluntary) information related to their activities, outcomes and achievements in their (voluntary) ARs than they did in their (mandatory) TARs. These TARs instead emphasised information related to fiduciary accountability: for example, reporting on reserves policies and reviewing the potential risks that charities faced. Moreover, the CCEW (2004) noted that the voluntary documents' design, structure and content were more user-appealing than those of the TAR. Connolly and Dhanani (2009), in their assessment of charity accountability through the narrative reporting practices in TARs and ARs/impact reports (IRs) of 75 UK fundraising and non-fundraising charities in 2005/06, noted limited disclosure of performance information, with outcomes-based information being the most prevalent, and efficiency and effectiveness information reported only occasionally. Moreover, challenging the results of CCEW (2004), they noted a somewhat higher frequency of outcomes-based information in the TARs as compared to the ARs (45% versus 33%, respectively). The authors also observed potential instances of impression management, insofar as the charities in their sample selectively reported positive news stories and, in turn, presented themselves in a positive light.

Further, while charities in England and Wales are legally required to report on public benefit in their published TARs, prior research has found engagement with this to be patchy at best (Morgan and Fletcher, 2013, Chaidali *et al.*, 2022). In their examination of more than 1,400 charity TARs, and via conducting interviews with trustees and key TAR preparers, Morgan and Fletcher (2013) found variability in compliance levels with the CCEW's guidance, particularly among smaller charities. Most charities identified their beneficiaries, but TARs rarely described the charities' activities that meaningfully furthered their objectives. Few explained how their activities benefitted their constituents, and even among the largest charities, only 36.2% demonstrated this linkage in a clear way.

On impact specifically, Breckell *et al.* (2011) reviewed the external reporting of 75 small and large charities, noting that although most charities (68%) reported outcomes information, only a small number of charities (8%) extended this to include impact information – defined as the 'broader or longer-term effects' (p. 10) of organisational interventions. In contrast, Hyndman and McConville (2018), in their investigation of 2010/2011 TARs, ARs/IRs and websites of the top 100 UK charities, noted that 90% of their sample reported what they referred to as 'the long-term effect [of a charity's interventions] on individuals', in at least one of their reporting

platforms, and 64% also reported the long-term effect charitable interventions on broader society. (p.137).

Challenging the practices reported by Hyndman and McConville (2018), Davies (2020) examined the TARs and websites of 102 charities for impact information on behalf of the CCEW. This study found that whilst only 40% of the TARs examined met the legal requirement to report on public benefit, fewer than 10% of charities' TARs explained the impact of their interventions. Moreover, the information provided focused predominantly on the difference made to service users' lives, with only one charity – less than 1% of the sample – discussing the effect of its activities upon broader society. Finally, charities were found to use their websites even less frequently than they did their TARs to report impact, while those that did use their websites also shared impact information within their TARs.

2.3. Summary

Prior literature, including the Phase One report, suggests that funder demands for performance information may be costly to produce, may not be useful to the charities they fund, and/or may result in duplication of effort. Few studies have considered funders' attitudes towards impact reporting through the life cycle of their relationship with a charity, from the initial approach through to grant or contract acquittal. This research addresses this gap in extant literature.

Furthermore, prior research into charity performance reporting has suggested considerable variation in practice, despite recommendations from the Charities SORP and wider practitioner and academic literature calling for the inclusion of such information to enhance charities' accountability. Charities have emphasised activities and output-based information, with limited disclosures on efficiency and effectiveness linked to the 3E framework. With respect to impact, while Breckell *et al.* (2011) and Davies (2020) noted that fewer than 10% of charities reported impact information, Hyndman and McConville (2018) found that most of the charities in their sample (90%) recorded such information. This Phase Two study both complements and supplements prior research by examining the impact reporting practices of a sample of charities.

Section 3 presents the research approach adopted in Phase Two of this study.

3. Research approach

The study sought first to understand the value and use of impact information for funders and funders' support for impact practice, and secondly to examine impact reporting practices in charity documents. To address these objectives, the study undertook semi-structured interviews with 14 major funders, and conducted a content analysis of various reporting platforms used by 21 charities. Both research instruments were informed by prior research, along with feedback from the ICAS Steering Group.

3.1. Interviews with funders

Semi-structured interviews were conducted between December 2022 and February 2023 with 14 major organisational funders. While a small number of funders of charities included in the content analysis were interviewed, additional funders were purposely sought, in order to better capture the diversity of funders and differences in their respective approaches and models. The interviews were conducted by combinations of two research team members, with guiding themes used to pose open-ended and follow-up questions to the participants. The interviewees were encouraged to explain both how and why charities' impact reporting was valuable to them, and whether and how they supported their fundees' impact practices. Table 3.1 provides an overview of the interviewees.

Table 3.1 Interviewee details

#	Interviewee Position	Charitable Activity	Funder type
1	Regional Manager	Gaming Fund Grantmaker	Corporate Foundation
2	Manager CSR/Sustainability	(Financial) Corporate Foundation	Corporate Foundation
3	Commissioning Team Lead & Team member	NHS Trust	Public Sector contractor
4	Sponsoring Manager	University (programme for students)	Public Sector contractor
5	Sponsoring Manager	University (programme for students)	Public Sector contractor
6	Investment Manager	Venture Philanthropy Foundation	Private Foundation
7	Consultant	(Financial) Corporate Foundation	Corporate Foundation
8	Manager Insight/Impact	Independent Grantmaking Foundation	Private Foundation
9	Director	City Council	Public Sector
10	CEO	Social Investment Foundation	Social Enterprise
11	Director	Independent Grantmaking Foundation	Private Foundation
12	Manager Research/Learning	(Financial) Corporate Foundation	Corporate Foundation
13	Director	Independent Grantmaking Foundation	Private Foundation
14	Head Insight & Manager Impact Evaluation	Public fundraiser/Grantmaker	Public Sector Foundation

Note: Two interviews (#3 & #14) included two participants.

3.2. Content analysis

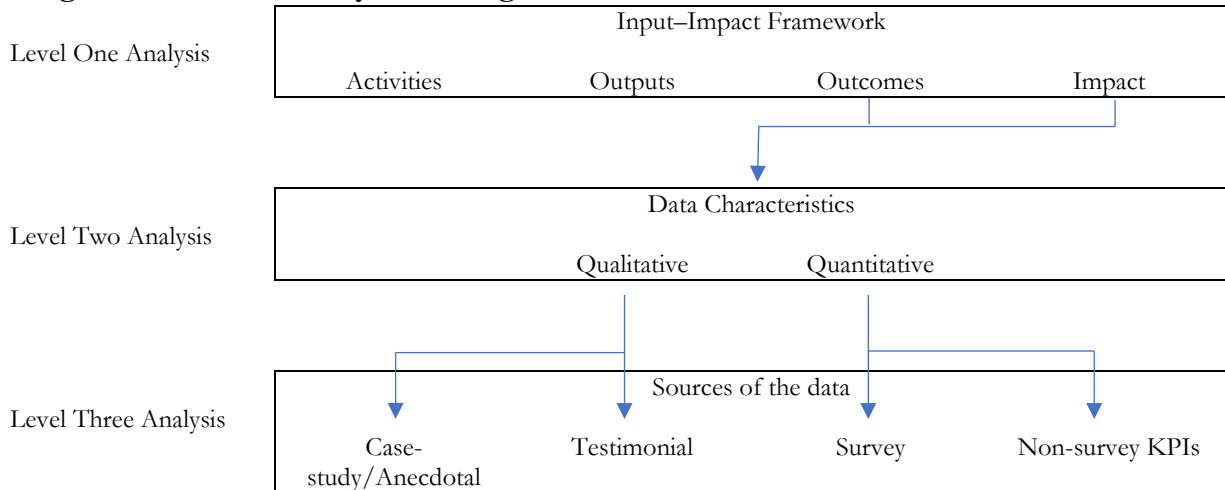
Content analysis codes qualitative and/or quantitative information into pre-defined categories, and has been used in prior charity studies to understand and compare voluntary and/or mandatory reporting and disclosure patterns (Cordery and McConville, 2022).

In this study, qualitative data (that is, all narrative sections, infographics and images that include captions) in the reporting media of the selected charities were analysed in accordance with the input-impact framework (also used in Chaidali *et al.*, 2022).⁴ We captured (i) the presence of the

⁴ All charities provided some form of input information. However, because it was often embedded in the details of the organisations' activities, the input data was examined as part of activity data rather than separately.

framework’s variables in the charities’ reporting practices; and (ii) the extent of coverage, that is, the page space occupied by the variables, which was calculated as a percentage, relative to the other variables. Moreover, details about the nature of the data (qualitative and quantitative) and the sources of this data were also recorded, drawing on the equivalent for outcomes data to enable comparison (See Diagram 3.1).

Diagram 3.1 Content analysis: coding details



An initial coding frame, with associated definitions, were developed from the input-impact framework and previous literature, and then applied to a small random sample of the corpus. Both the coding frame and definitions were revised and clarified to ensure that the data was captured consistently, comprehensively and objectively. Following two iterations, the coding frame was subsequently finalised (see Appendix) and used to analyse the reporting practices of 21 charities. Report data was imported into the NVivo software package and analysed by a single team member to further reinforce consistency.

The content analysis dataset comprised a set of charities that had volunteered to participate in this ICAS study, and an additional set deemed to be committed to impact practice. In the latter case, charities were identified using internet research, researchers’ familiarity with the sector and charities that self-identified as impact practitioners in Phase One of this research. The purposive sampling focused on identifying a wide breadth of charitable activities (addressing homelessness prevention, addiction support, medical research, advancement of health, etc.), in order to capture the diversity of the sector, which may influence disclosure patterns (Chaidali *et al.*, 2022), and similarly, to ensure that charities of varying size, scope and institutional complexity were included – once again to provide a representative sample of the sector. Ultimately, 21 charities were included in the study.

Charity reporting media included the following: TARs, which were accessed from the charity regulators or charities’ websites; voluntary, standalone ARs/IRs that ordinarily were prepared in the form of reports or, in some instances, as an internet blog; and a few dedicated interactive webpages on charities’ websites. For each charity, documents were analysed for 2020 and 2021 in an effort to capture any temporal dynamics linked to impact reporting. In total, 59 documents were collected into a corpus that totalled 981 pages.

Section 4 presents the results from the funder interviews, followed by the content analysis of charities’ reports in Section 5.

4. Funder use of impact reporting

The interviews with funders sought to understand the value and use of impact information for funders, as well as funders' support for impact practice. Table 3.1 demonstrates the broad range of funders we interviewed. Three funders contracted for services, four were corporate foundations engaged in charitable funding, and four were private foundations, generally drawing on bequests or accumulated capital to make independent grants/funding. In addition, there was one public sector grantor, a social enterprise and a public sector grantor that raised public funds to distribute. One private foundation undertook 'venture capitalist-esque' activities and shared some similarities with the social enterprise funder, for which grant-making was a minor activity that augmented its principal focus on social investment.

All the funders required performance reporting of some type. This served to confirm their initial funding decision, to monitor fundees and to learn from the data reported. The reporting had different foci. Funders contracting for services prioritised client (beneficiary) satisfaction: advancing the aims that underpinned their funding often led to more output-oriented information, such as the number of people benefitting. Conversely, grantors were more interested in the difference created, and so required evidence of charities positively impacting upon society. While some literature (Clayton, 1994, Sen, 1999) argues that charities are beholden to large funders at the expense of their beneficiaries, our interviewees actually reported concern for beneficiaries, stressed the need to encourage learning, and generally expressed a desire to work with charities to enhance their societal impact. We recognise that this may reflect a positive bias on the behalf of interviewees, who were wishing to refer to 'best practice.'

This Section comprises four major subsections. analysing: (i) what funders look for in impact reporting; (ii) how funders work to develop impact practice; (iii) what other supporting material funders request; and (iv) how funders seek to develop their own impact practice.

4.1. What funders look for in impact reporting

Funders consider impact practice to be important, not only as an accountability mechanism but also to encourage learning about what works (and what does not). Funders seek different impact reports through the funding period, summarised here as a three-stage process, comprising: (i) the initial approach and enquiry, (ii) on-going through the funding period, and (iii) acquittal after the funding period ends.

Initial approach and enquiry

Financial reports (and the associated IRs, if any) constitute an important part of any grant application. Funders review many aspects of the TAR, including whether it was lodged with the charity regulator on time, the quality of the reports, and other mandatory filings (Interviewee 10, Table 3.1). Undoubtedly, when charities are seeking funding to cover specific activities and programmes (rather than seeking general funding), the TAR serves as a supplementary document to the formal grant application.

Grant applications typically request information about the intended impact of a charity. As one grantor explained:

Part of our assessment process asks for, "What will the difference our funding make [sic]? And how will you measure it?" And we assess that. And if we feel that it's not robust enough, we might not choose to make that investment.' (Int 11)

As another interviewee argued, it is imperative for a charity to 'have a clear understanding of... what their value proposition is' (Int 12), that is, what their objectives are (Int 6). In an effort to satisfy

themselves and prioritise the many requests they receive, funders seek to clearly understand the link between charities' proposed activities or programmes, success and the funding requested. This requires, for example, evidence of need, indications of how the proposed activity or programme will meet that need, and how the associated outcomes will be measured.

Some funders are more specific and/or proactive than others, prioritising those areas in which they are seeking to engender societal change. These funders may identify charities to potentially carry out specific activities/programmes that will generate their intended impact (Int 13). Hence, charities' published impact information is valuable for attracting funder attention. Furthermore, across the spectrum, the funders we interviewed noted that charities' transparency over impact information '*instils confidence*' (Int 4) and signals a willingness on their part to evaluate their own practice and be open about the impact they are seeking to achieve. Indeed, one interviewee opined that the impact report in charities' TARs is '*the most interesting part of the accounts because... it gives charities a chance to really say, "Here we are, here's our stall"*' (Int 6). However, both the relatively low presence and variable nature of impact reporting within charities' TARs (see Section 5) may require funders to follow up with the charity (Int 1). Moreover, voluntary ARs/IRs, which one interviewee described as merely '*a communications tool*' (Int 12), are unlikely to have the level of detail required as a full basis for a funding request.

Ongoing through the funding period

The funders overwhelmingly expressed that they want charities to succeed and achieve what they describe in their applications. Savvy funders seek to maintain good funder-fundee relationships throughout the grant period. While funder support levels vary depending on the size of the grant and its longevity, there was nevertheless an overwhelming belief that:

.. once you're considering funding an organisation that aligns with your strategy, the primary motivation, then, is to not structure the partnerships, or the funding, in such a way that makes it harder for them to achieve their objective. (Int 2)

Meaningful relationships enable 'trust-based' philanthropy/funding, sometimes relegating 'the paperwork' to a 'back-up' role (Int 1). Funders build relationships by allocating a staff member (Int 14) to engage in site visits, calls and regular informal conversations. These can also alert the funder to emerging issues that might require additional support (Int 7). Although one interviewee noted that this higher trust in grant-making may have been a consequence of the COVID-19 pandemic (Int 8), funders in the contracting space also seek to ensure that their multi-year investment is being maintained, with the relationship enabling learning about innovations and ways to improve impact.

For longer-term (i.e. multi-year) grants, funders will often request a brief report before releasing funding for subsequent years. This opens up further opportunities for reflection on the activities or programmes, for suitable adjustments to be made to expectations, and for the relationship to deepen. Such practice is in line with the Scottish Social Renewal Advisory Board's (2021) calls for government funders to work closely with their communities to bring about better long-term outcomes through deepening relationships and providing multi-year funding to sustain them.

Acquittal at the end of that period

We observed variation between accountability for large national programmes, and funds acquittal provided by small charities or those receiving relatively small grants for short periods or one-off projects. Small grant acquittals may require only brief case studies, pictures and quotes, along with a simple financial report to provide funders with a reasonable level of assurance about how the money has been spent and the impact it has had, and for the charity to recognise it has

discharged appropriate accountability. Further, funders are not always *'the sole contributor of the impact. And [this]... doesn't merit a very deep dive because a deep dive would cost more than the grant was worth'* (Int 11).

Funders reported that some charities seek to 'game' their impact reporting, which is not only *'pretty obvious'* but also serves to reduce funder trust and undermines the potential for successful long-term relationships (Int 6). Consequently, although none of our interviewees currently seek formal assurance of impact reporting, what the funders *'want to see is that what they are funding is making a difference'* (Int 2). This helps to explain why they recognised the reputational benefits of a charity kitemark or accreditation, although, as shown in Report One, this approach was unpopular with charities themselves. That said, in areas such as health services and education, such assessments of the quality of charities' work may be essential.

Funders expressed a desire to learn how to be better funders through reframing their documentation and access to information – for example, by pre-populating on-going and acquittal forms from the charity's application to use later as a prompt to check in on progress made on the core issues (Int 14). This also assists charities who appreciate general guidance as to what is required, rather than having to start again with a blank form (Int 12).

One tension highlighted by funders was that some charities felt impact practice was *'more complicated than it really is'*, believing that *'they should be doing an impact report but without really understanding what it is and what they should be doing'* (Int 10). This situation was deemed to be unhelpful for both parties, and hence an area for funders to work together more closely.

4.2. How funders work to develop impact practice

In light of the push for greater impact practice (as seen through the SORP updates), many of our interviewees had previously granted additional funds to develop their grantees' impact practice. However, these arrangements are now less common in the current financially-constrained environment. Given the much greater availability of impact resources and pro bono assistance, several interviewees (Int 1, 2, 8 & 13) stated that, rather than merely depending on funders to drive impact practice:

some of the culture change has to be at trustee level onwards, because in order for impact to be really invested in within an organisation, the trustees need to be appraised, and convinced, of its importance... and enabling charities to put more of their unrestricted funding towards it. (Int 1)

Nevertheless, this was not the only view we heard, as a corporate funder and a public sector foundation discussed that their 'funder plus' programmes provide a 'menu' of options through which to:

build the kind of capabilities, capacities, and resilience of organisations that we fund, in the hope that they leave us a more kind of stable and effective organisation than when we started funding them. (Int 12)

Such programmes encourage charities to think more deeply about the impact they aspire to bring about and to consider how best to engage in impact measurement (Int 14). Hence, an important part of these funders' approval processes pertains to determining the charity's capacity for development and willingness to engage in impact practice.

4.3. What other supporting material funders request

Marked differences exist in the supporting material funders request when they contract for public services as opposed to grant-making. Public services in the health and education sectors

are often closely scoped – contracts include service specification outcomes and measures, and charities may also be required to report data that feeds into national and international databases.

Funders seek a wide range of material from their wide diversity of funded charities, and often endeavour to remain flexible in their impact reporting demands so as to limit asking for unnecessary material. They tend to issue question headings which are *‘broad, in order to enable charities to come to us with examples of impact which would fall under that heading, but which are completely bespoke to them, and completely mission-aligned to them as well’* (Int 1). However, this does not override funders’ need for consistency and comparability, which can be constrained when funders’ staff cannot easily access or analyse the range of data collected (Int 8).

Irrespective of what type of material is requested, funders require transparent reporting, whether formal (through TARs, applications, acquittals) or informal (e.g. on websites), and use publicly available information where possible. Nevertheless, when funders seek to understand and report their own impact (Int 1 & 14), they need specific information in order to do so (see Section 4.4). Furthermore, variation in funders’ levels of accountability may require charities to provide highly specific data (Int 7 & 9). For example, funders spending public money may need more detail about fairness and reach, as opposed to a family foundation that identifies a specific population for its largesse. Although central data repositories may assist reporting, especially when charities are co-funded, one interviewee noted that efforts in Scotland over a decade ago to unify impact reporting and reduce the burden on charities and funders had not succeeded, due to the different aims of funders, as well as legal matters such as philanthropists and charities’ trust deeds that limit flexibility in purpose (Int 11). For example, *‘other organisations that have got slightly different missions. And also, actually, I think, you know, our approach to thinking about impact is different as well’* (Int 8). These nuances are reflected in the input-impact framework, the distinct foci of the funder and the funding type and size (including whether it is a contract or a grant that is general or specific).

4.4. How funders seek to develop their own impact practice

The impact practice challenge is also taken up by funders themselves, with some philanthropists seeking to measure their own theory of change, in order to recognise their societal (including environmental) impact. Some are making ‘significant investments’ in their own capacity to undertake impact practice, in an attempt to evidence their own credibility, raise additional support for their work (Int 10), and measure their progress towards the change they seek to make (Int 6). The primary motivation underpinning our funder interviewees’ impact practice was to better understand and influence change, and this activity often informed the development of impact practice among the charities they funded.

Funders spoke to us about ten-year strategies, but also the need to *‘have answers on an ongoing basis, and a kind of approach to continuous improvement’* (Int 8). Funding to bring about these long-term outcomes was deemed to require longer-term investment, as well as being considered ‘highly relational’ and often requiring the ability to scale up to impact and transform society more broadly (Int 7).

One consequence of longer-term considerations of potential societal change is that funders’ IRs may be highly summarised and not follow the annual cyclical reporting pattern (Int 10). Indeed, charities with longer-term interventions also prepared IRs less frequently than annually (Section 5, below). Nevertheless, KPIs, balanced scorecards and other tools allow funders *‘to build a picture of the journey of change’* (Int 7). Evidently, this requires the aggregation of multitudinous qualitative and quantitative data, and encountering the same challenges that their fundees face, as they strive to carve out time and resources to *‘tell a better impact story with our own data’* (Int 14).

4.5. Summary

Funders are increasingly seeking impact information from charities, at the enquiry level and right through to grant acquittal. Whilst they collectively recognise that impact guidance material is publicly available, varying expectations mean that a unified approach to impact reporting for charities is unlikely to be achievable. Funders recognise that charities may find it difficult to put guidance into practice, especially in the case of smaller charities. Supportive funders provide aid to charities to engage in impact reporting, as well as trying to streamline their own processes to make it easier. Some funders also engage in their own impact practice, which provides opportunities not only for them to learn more about impact but to use this knowledge to inform grantees' own impact practices.

5. Results – content analysis

The content analysis sought to assess whether and to what extent the charities in our sample reported their impact. Further, reporting practices were compared over time and across different reporting platforms. The nature of the recorded impact was also analysed.

Table 5.1: Documents prepared by the charities

Documents	2020	2021
TARs	19	19
Additional documents (ARs/IRs) and website sections related to impact	9	12

Of the 21 charities, 19 TARs were available and analysed for both 2020 and 2021 (Table 5.1). In addition, consistent with prior research, some charities prepared additional, voluntary documents (ARs or IRs) that were usually published on their websites and/or interactive webpages on their websites dedicated specifically to performance and impact. Between 2020 and 2021, there was a marginal increase in the number of such documents/platforms. The frequency with which the voluntary publications were produced appeared to reflect the nature of the charities' activities; as noted in Chaidali *et al.*, (2022), organisations with longer-term activities, for example, prepared a voluntary report less frequently than those with shorter-term interventions, which tended to report annually.

5.1. Impact reporting: Trustees' Annual Reports

Table 5.2: Disclosure patterns in the TARs: input-impact framework

Variables	2020 n=19	2021 n=19
Panel A: Presence of variable (% of charities that presented the variables)¹		
Activities	94.7%	100.0%
Outputs	89.5%	100.0%
Outcomes	78.9%	57.9%
Impact	63.2%	63.2%
Panel B: Extent of coverage by variable (% space occupied by each variable)²		
Activities	54.7%	54.5%
Outputs	28.2%	31.1%
Outcomes	12.5%	8.7%
Impact	4.6%	5.7%
Total	100%	100%
Panel C: Stated / Captured impact (% of TARs)³		

Stated impact, not captured	15.0%	5%
Captured impact, not stated	15.0%	26%
Notes:		
¹ Presence = % of organisations that presented the variable at least once in their respective documents.		
² Extent of coverage = the average physical coverage of each variable relative to the others in the input–impact framework.		
³ Stated impact, not captured refers to situations where charities claimed to be reporting impact, but actually, the associated content did not convey impact. Equally, some charities did not claim to be reporting impact but did so (captured impact, not stated).		

This section presents the results of the impact reporting practices in the TARs. Table 5.2 (Panel A) shows that almost two-thirds (63%) of the charities in both 2020 and 2021 reported some form of impact. These results compare favourably to Breckell *et al.* (2011) and Davies (2020), who noted that fewer than 10% of their sample charities reported impact information, although the somewhat purposive nature of the sample selected for this study may explain the higher impact representation in the results. Indeed, compared to other variables in the input–impact model, fewer charities reported on impact; 2021 was an exception in this respect, as a marginally higher proportion reported impact information compared to outcomes information. These results are perhaps not surprising in that as the variables in the progressive framework become more sophisticated, the level of associated disclosures wanes. Moreover, the extensive representation of outputs data – all charities recorded such information – may reflect funders’ focus on this data (Cupitt and Mihailidou, 2009, Cupitt and Ellis, 2022). Overall, while, the impact reporting results are encouraging, some charities were what the researchers identified as potential ‘incidental’ reporters, which is to say that they presented impact information incidentally, principally as part of a case study or a testimonial.

Regarding the extent of impact information, captured as the relative physical space dedicated to the different variables in the input-impact framework, impact occupied a much smaller space in charities’ TARs (Panel B). For example, in 2021, only 6% of the space linked to variables in the input-impact framework was dedicated to impact information, whereas in comparison, 55% of that space covered activities-based information. Nevertheless, this measure has comparative limitations. A small proportionate representation of impact may not reflect weak practice: charities may have reported extensively on their activities as background information but the associated impact information could have been captured succinctly.

Finally, Panel C, Table 5.2 reflects on the relationship between charities that claimed to report impact (‘stated’ impact) and their actual reporting practices, and similarly, charities that did not make a claim about impact reporting (no ‘stated’ impact) but nevertheless reported impact information. In 2020, a small percentage of the sample charities (15%) claimed to report on impact but actually either failed to do so or had a different conception of what impact constitutes. By 2021, this percentage had fallen to 5%, indicating that charities increasingly understand what impact constitutes. In contrast, in 2020, 15% of charities failed to recognise their impact disclosures as such, but this increased to one-quarter of charities by 2021. These results may reflect the aforementioned notion of incidental impact reporting, and there may be scope for charities to more clearly and consciously capture and articulate their impact to external audiences.

5.2. Impact disclosures: ‘non-Trustees’ Annual Reports’

This section reviews the impact reporting practices in the voluntary documents and/or interactive webpages dedicated to impact and compares them to practices in the TARs (Table 5.3).

Almost three-quarters of the charities that prepared an additional voluntary document/dedicated impact webpages used them to record some form of impact. The same proportion of organisations chose to report outcomes data in these documents. Whilst this suggests that ARs/IRs were more likely to include impact information than TARs (76% of ARs/IRs versus 63% of TARs included impact information), a more direct comparison between the charities that prepared the additional voluntary documents and their specific TARs (Column 1 versus Column 3) indicates that organisations were more likely to present impact information in their TARs than in their voluntary documents. Specifically, of the charities that prepared ARs/IRs or dedicated impact webpages on their websites, 94% included impact data in their TARs versus 76% in the additional documents/platforms. These results are consistent with Davies (2020). A similar pattern was also apparent for the outcomes information (82% representation in TARs versus 76% in ARs/IRs). With nearly all of the voluntary document preparers including impact information in their TARs, these charities appear to be better versed in how to effectively convey their performance and achievements to external audiences, namely using TARs to report impact and additional ARs/IRs to connect with different audience types (Chaidali *et al.*, 2022).

Table 5.3: Disclosure patterns in ‘non-TARs’

	ARs/IRs (or equivalent) n=17	TARs – total sample n=38 ¹	TARs of organisations that prepared an additional medium n=17 ¹
Panel A: Presence of variable (% of charities that represented the variables)²			
Activities	95.2%	97.4%	100.0%
Outputs	95.2%	94.7%	94.1%
Outcomes	76.2%	68.4%	82.4%
Impact	76.2%	63.2%	94.1%
Panel B: Extent of coverage by variable (% coverage of the input – impact variables)³			
Activities	39.1%	54.6%	59.2%
Outputs	27.2%	29.4%	19.3%
Outcomes	20.9%	10.9%	13.2%
Impact	12.8%	5.1%	8.3%
Total	100%	100%	100%
Notes:			
¹ Disclosure patterns in the ARs (or equivalent) of the organisations that produced them are compared to (i) the TARs for all of the charities included in the study and (ii) the TARs of the charities that produced these additional reviews (or equivalent).			
² Presence was computed as the % of organisations that presented the variable at least once in their respective documents.			
³ Extent of coverage was computed as the average physical coverage of each of the variables in the input–impact framework.			

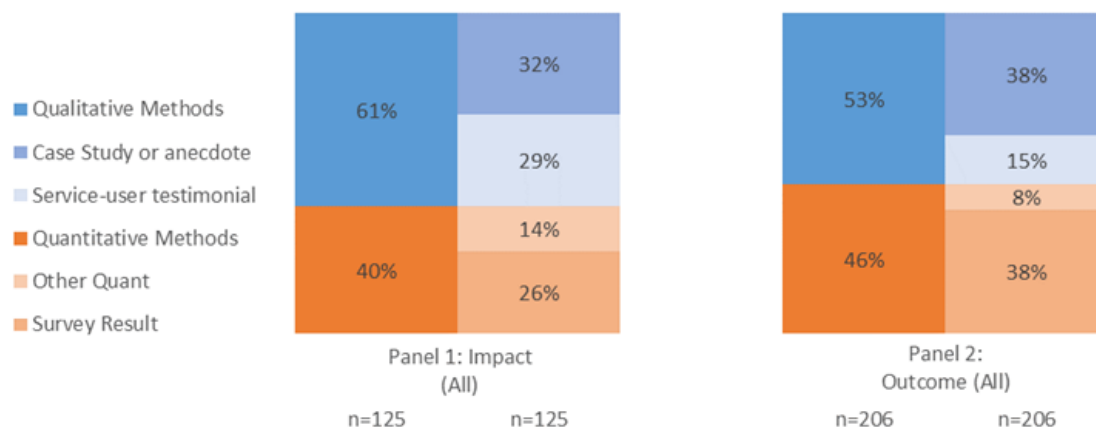
When examining the extent of impact information in the ARs/IRs/webpages (Panel B), one can discern that impact occupied 13% of the space dedicated to the input-impact framework. Charities dedicated more than twice the space to impact disclosures in their voluntary documents/platforms than in the TARs, where only 5.1% of the space dedicated to the input-impact model information comprised impact information. A more direct comparison between the voluntary reports and the TARs of those charities that prepared the former (Column 1 versus Column 3) also reveals that, on average, charities spent relatively more space in their voluntary

media on impact in comparison to the TARs (8%). One explanation for the relatively lower volume of impact disclosures in the TARs, as reported in Columns 2 and 3, may be the formality of this document and the additional items on which trustees must report.

5.3. Impact disclosures: nature

Prior research and perspectives from those within the sector (see Chaidali *et al.*, 2022) have alluded to the relevance and importance of capturing impact through both quantitative and qualitative measures. Each form has its own merits: quantitative information offers breadth, whilst qualitative information offers depth and also compensates for challenging complex phenomena that are difficult to translate into appropriate and attributable measures (Lowe, 2013).

Figure 5.1: Nature of charity impact reporting



Our assessment of the nature of disclosures in the sample organisations for both 2020 and 2021 revealed that, in accordance with extant literature, impact information consisted of both quantitative and qualitative data, with a somewhat heavier weighting towards the latter. Specifically, of the 125 instances of impact recorded across the sample charities’ TARs and ARs/IRs, 40% of these comprised quantitative information, whilst 60% was qualitative information (Figure 5.1). Comparative analysis of the nature of the outcomes information suggests that while charities’ qualitative information continued to prove more popular, the difference between the proportion of this information and quantitative information was less pronounced (53% versus 46%, respectively). These differences in practice may be explained by both the challenges that charities experience and the resource commitments required to accurately and comprehensively capture impact (Chaidali *et al.*, 2022).

Figure 5.1 also distinguishes between the forms of quantitative and qualitative impact disclosures captured, whilst Table 5.4 offers examples of best practice. Qualitative forms included anecdotal evidence or case studies of individual service users written in the third person, including expert opinions. Alternatively, service users themselves shared testimonials in which they expressed the change(s) that had taken place in their lived experiences as a consequence of their particular charity’s intervention. Both forms reflect uncomplicated and inexpensive forms of gathering impact data (Harlock, 2014), although the stories shared may not be representative of all service users. Indeed, there was a tendency to focus on ‘good news’ stories, which may be indicative of

‘cherry-picking’ of exemplary impacts and practices of impression management (Connolly and Dhanani, 2009). Moreover, measurement processes may themselves be subject to a variety of biases: service users, for example, may not feel comfortable criticising the charity that has endeavoured to support them.

Table 5.4: Examples of qualitative and quantitative disclosures

Qualitative Data	Quantitative Data
Case studies/anecdotal evidence	Surveys
<ul style="list-style-type: none"> “Madison developed a better understanding of her brain injury, and more of a willingness to accept support.” The Children’s Trust TAR 2021 “Today, Flossy and Jubilee are living happier lives, and spend their days grazing with their newfound friends.” Donkey Sanctuary TAR 2021 	<ul style="list-style-type: none"> “62% improved their confidence.” Reach Out Impact Report 2020 “Other findings include 95% of survivors seeing an increase in coping and confidence, over 90% seeing improvements in wellbeing, and 60% saying their health had improved.” SafeLives TAR 2020
Testimonials	Other forms of quantitative data
<ul style="list-style-type: none"> “I honestly feel like a door has been opened for me after being trapped underground for a long time. I woke this morning and smiled for the first time in a very long time.” Llamau Impact Report 2021 “I find they’re very supportive and go above and beyond to help and make you feel better. NUM makes me feel safer.” National Ugly Mugs Impact Report 2020 	<ul style="list-style-type: none"> “The average encounter rate of adult boas per person hour of searching was 0.681 individuals in 2020, compared to 0.577 in 2019.” Durrell Zoo TAR 2021 “Secondary school pupils who habitually ate breakfast on schooldays achieved, on average, nearly two grades higher in their GCSEs than those who rarely ate breakfast.” Magic Breakfast TAR 2020
<p>Notes:</p> <ul style="list-style-type: none"> The Children’s Trust is a national charity for children with brain injury and neurodisability and their families, engaged in the provision of rehabilitation, education and community services for these children. Donkey Sanctuary seeks to transform the lives of donkeys around the world by fostering greater understanding, collaboration and support, and by promoting lasting, mutually life-enhancing relationships. Llamau, a leading homelessness charity in Wales, works with the most vulnerable young people and women to enable them to live independent and purposeful lives in their communities. National Ugly Mugs, as a pioneering, national charity, provides greater access to justice and protection for sex workers who are often targeted by dangerous individuals and face obstacles to reporting and gaining access to service and police protection. Reach Out is a national mentoring and education charity that works in under-resourced areas to support young people and spark change in themselves and society. SafeLives is a national charity dedicated to ending domestic abuse. The Durrell Wildlife Conservation Trust operates from its Jersey Zoo – Durrell Zoo to save species from extinction. Its aim is for more diverse and resilient landscapes that enable species to thrive and people to be at one with nature. Boas are one of the three key reptile species that the Zoo has sought to protect in a particular region and its efforts have led to a rise in the boa population on a per person hour of searching between 2019 and 2020. Magic Breakfast seeks to alleviate hunger as a barrier to education for schoolchildren through the provision of free breakfasts, principally in under-privileged areas. 	

The quantitative data analysed generally represented charities’ efforts to capture impact on a collective basis. Forms included survey data and other quantitative reporting, such as the longer-term performance outcomes experienced by service users, or changes in other relevant and significant KPIs. It was, however, often unclear if the survey instruments were externally validated, completed by trained professionals, or developed by the charities themselves. Moreover, there was also opacity around the data gathering processes (Yonder Consulting and Charity Commission for England and Wales, 2022). Such practices raise questions around data verifiability and the validity of the impacts presented. Brightside and SafeLives were exceptions in this regard, insofar as they not only exercised a high degree of transparency over their data

collection and analysis processes, which gave greater context to the impact data, but also used (non-survey) quantitative methods:

“We look at in-project engagement, post-project behavioural outcomes and for the first time in our history are now able to look at long-term impact...In order to get the fullest possible understanding of our impact, we track mentee trajectories through the Higher Education Access Tracker (HEAT).” **Brightside TAR 2020**

“The University of Hull’s recent evaluation, currently being peer reviewed, shows that DA Matters training has a positive and sustained impact. It has led to a 41% increase in arrests for controlling and coercive behaviour in adopter forces.” **SafeLives TAR**

5.4. Summary

Overall, even the relatively small sample of charities’ impact reporting practices revealed heterogeneity in the practices of organisations, with one-third failing to include impact information in their TARs at all, while several others appeared to report impact on an incidental basis. There was little change observed in practices over time, which may reflect the slow pace of development in what Chaidali *et al.* (2022) referred to as charities’ impact journey. However, in 2021, charities appeared to have a good understanding of what impact is, in that fewer charities claimed to report on their impact while failing to do so. Moreover, charities also recognised the need to report impact information in their TARs, even if they produced additional voluntary documents/platforms for relaying their performance.

6. Phase Two recommendations

This research project, supported by ICAS, sought to produce evidence that would both enhance charity impact practice by informing the reporting requirements in the next SORP iteration and serve as guidance for charities. This section presents the recommendations from the second phase of the research project. They are categorised into three levels: charity, funder and sector supporters.

6.1. Charity level recommendations

Our evidence enables us to make the following five recommendations for individual charities.

Embarking on the impact journey

As suggested in Phase One, charities should look beyond the hurdles and engage in impact practice. Funders believe that embarking on an impact journey is less complicated than charities typically deem it to be and that, in fact, it is a natural extension to capturing output and outcomes data.

Moreover, some charities already appear to inadvertently engage in impact reporting within their TARs and additional voluntary documents, insofar as they disclose impact information through case studies and anecdotal evidence. In such instances, there may be scope to capture such impact data systematically and consistently. To this end, charities should seek to formalise their engagement with such endeavours.

Charities and trustee engagement with impact

The views of the funders suggest that charity trustees who oversee the activities of the organisations should recognise the value of impact practice and subsequently engage with it, for the mutual benefit of the organisations themselves, their beneficiaries and funders.

Nature of impact reporting

Phase One recognised the importance of both qualitative and quantitative data for showcasing charity impact, and suggested that charities should consider collecting and reporting both forms of data based on their relative strengths. Phase Two of the research finds that charities prioritise qualitative information within their reporting. This prioritisation fails to provide audiences with an understanding of the breadth of charities' impact, so there is scope to collect such data on a systematic basis.

Moreover, given that case studies, anecdotal evidence or testimonials almost universally reflect positive news stories, emphasising qualitative data may largely constitute an exercise in public relations. This not only contradicts the SORP's recommendations for a balanced view and the authenticity of the TAR, but may also reduce the confidence of funders and other stakeholders in charities that engage in such practices, and threaten the legitimacy of external reporting. The inclusion of both forms of data would enable a more balanced position, especially if charities authentically report on quantitative information.

Complexities within charity operations

Depending upon both the size and nature of charitable activities, charities may be engaged in an extensive number of projects with different characteristics and timings. They may address different organisational charitable objects and deliver impact at different speeds, such as, for example, when a medical charity contemporaneously undertakes service-related activities that benefit users almost immediately, alongside research-based activities that take many years to generate impact. The TAR may thus be seen as a problematic medium through which to report

when it does not (i) accommodate impact reporting across the breadth of projects that an organisation may be engaged with, or (ii) enable the showcasing of impact on an annual basis.

In such instances, we reiterate our Phase One recommendation: charities should report ‘sufficient and appropriate’ impact information that provides report users with critical and essential decision-relevant information, rather than over-loading them with immaterial data. The principles of IFRS 8 ‘Operating Segments’ may also assist in this process, if charities can identify the ‘Chief Operating Decision Maker’ who is in charge of various activities, and therefore align external reporting with that which is already reported internally by management. Equally, for longer-term projects, charities should convey this characteristic of their interventions to their audiences, and also reflect on the slow pace of demonstrating impact.

Enhancing impact practice

Overall, we found a lack of clarity around charities’ use of externally validated instruments to collect impact data, and around their efforts to verify the data collection methods they used. Failure to engage in high-quality practices can weaken the legitimacy of charities’ impact practices and, in turn, stakeholder confidence in the process. To enhance charity practice, as suggested in the Phase One report, sub-sector collaboration to co-develop impact measures and data collection practices with expert input would be invaluable. Moreover, in order to convey quality practice, charities should disclose such methodologies and approaches in their reporting.

6.2. Funder level recommendations

Our evidence enables us to make the following five recommendations in relation to funder practices.

Nurturing impact

For many funders, output-related data is critical for funding decisions, insofar as it serves as an indicator of the reach of charitable interventions (Cupitt and Mihailidou, 2009, Cupitt and Ellis, 2022). While grantors may value charities’ impact reporting, it is regarded as ‘additional,’ rather than being inherent to performance evaluation. Therefore, sector funders must move the performance agenda on to the next level and nurture impact reporting amongst grantees.

Clarifying expectations on impact reporting

The funders we interviewed report variable practice in charity impact reporting. We encourage funders to be clear about their expectations for impact reporting. Funders can both support and steer fundee practices, through guided pro-forma applications and interim reports, acquittal forms and general training, including web guides and one-on-one guidance where resources allow. We also encourage reporting requirements that are proportionate to the level of funding provided.

Capacity building and the funding ‘plus’ model

The funders we interviewed recognise that to enable their grantees to optimise the effectiveness of their interventions for beneficiary groups and thus society more generally, it is imperative to support them in building capacity and remedying any areas of weakness. Alternatively, funders’ arrangements may comprise a mix of restricted funding, that is spent on charitable activities, and unrestricted funding, which can be used to develop impact practice. Sector funders, more generally, should engage with capacity building/funding for impact.

Learning opportunities

Funders may have opportunities to learn from observing high-quality impact practices among the charities they support. Such observation would enable them to appreciate the processes

underlying impact practices and gain knowledge of particular methodologies or evaluation instruments, which the funders could then use to support the development of grantees' evaluation practices more generally.

Funder impact

Foundation trusts and corporate foundations appear to value impact reporting for themselves insofar as it allows them to demonstrate to their stakeholders the difference they are making to the lives of their service users and/or the environment. These organisations are therefore nurturing impact practice amongst their grantees. We encourage all funders to overtly recognise the impact of their own activities in order to enhance the legitimacy of their activities to diverse stakeholder groups.

6.3. Sector supporters

To prepare trustees to better understand and, in turn, nurture impact practice, sector supporters such as the regulator, umbrella bodies and think tanks may wish to support trustees through hosting workshops, webinars, and round table discussions. Similarly, sector supporters may wish to work with diverse funders through similar platforms to enhance their grant-making activities and, hence, the impact of such granting. There may also be scope for umbrella organisations to bring funders together to develop best impact practice guidance for funders, as well as standardising reporting formats to avoid duplication of effort for charities, especially in situations in which co-funding occurs.

The accountancy profession is well placed to work with the sector (including on a pro bono basis) to further develop charities' impact practice and to enhance public trust and confidence in individual charities and the sector as a whole. For example, charity finance directors should apply the principles of good financial management to good impact practice internally and carry this through to impact reporting. Similarly, charity treasurers and other finance trustees are ideally positioned to champion impact reporting also.

7. Research summary

Impact reporting enables charities to clearly communicate their *raison d'être*, both to those whose lives they are seeking to improve and to those who support them. At a broader level, it also demonstrates the value that the sector as a whole brings to society. This research suggests that funders consider the impact of the charitable activities of potential grantees before, during and after making grants or contractual arrangements. Moreover, a significant proportion of charities seek to report on their impact within their TARs and additional voluntary documents. While such reports are often carefully analysed by grantors, once they enter into funding relationships with charities, they engage privately with charities to trace the impact generated from the funds awarded.

Notwithstanding their benefits, measuring and reporting impact consumes significant resources which are scarce in the charitable sector (Chaidali *et al.*, 2022). However, charities and funders are willing to engage in 'the journey' to enhance impact practice, with the latter supporting impact development to enhance learning and, in turn, ensure the proper use of charitable resources.

However, in both phases of the research, our participants sought further support. We suggest conducting action research into communities of practice whereby the researchers would also act as consultants to the organisations they are working with. Simultaneously, efforts by the accounting profession and others to engage grassroots and smaller charities will enable the development of better support models. We also encourage research into 'what works' in developing impact practice in other countries, where different reporting requirements may guide practice differently.

The charity sector is vital within UK society and beyond, and many people are calling for greater accountability over the public resources that are committed to their work. We argue that impact reporting, defined as communicating about the longer-term, more sustained difference that charitable interventions and programmes make to the lives of individuals and to society at large, constitutes a critical mechanism of accountability.

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Appendix: Content analysis: definitions and examples

Item	Definition	Example
Panel A: Input-Impact Model		
Input	Investment to carry out charitable interventions.	<i>"Sponsorship income is our main source of income, but we receive income from a large variety of sources..."</i> Dr Graham's Homes TAR 2020
Activity – past or present	A description of an activity that the charity has previously or continues to carry out.	<i>"Staff have been developing alternative ways to involve children and create activities."</i> The Children's Trust TAR 2021
Activity – future	A description of an activity that the charity intends to carry out in the future.	<i>"To support and grow our range of strategic partners"</i> Barod TAR 2021
Output	An output (according to the input-impact framework definition) – immediate result of a charitable intervention captured with quantitative data.	<i>"40,250,080 bagels were eaten by pupils through the programme!"</i> Magic Breakfast IR 2018-2021
Captured outcome – qualitative	An outcome (according to the input-impact framework definition) – immediate consequence(s) of a charitable intervention captured with qualitative data.	<i>"By the end of her placement, Lily's right arm was much stronger, and we could barely keep up with her dances!"</i> The Children's Trust TAR 2020
Captured outcome – quantitative	An outcome (according to the input-impact model definition) – immediate consequence of a charitable intervention captured with quantitative data.	<i>"83% of professionals taking part in our projects improved their practice."</i> I CAN IR 2020
Captured impact - qualitative	Impact of a charitable intervention (according to the input-impact model definition) – longer-term consequence of charitable intervention captured with qualitative data.	<i>"Now the six donkeys – Gracie, Jenny, Paddy, Daisy, Daphne and Rachel – are enjoying life, playing and interacting with their surroundings."</i> Donkey Sanctuary TAR 2020
Captured impact – quantitative	Impact of a charitable intervention (according to the input-impact model definition) – longer-term consequence of charitable intervention captured with quantitative data.	<i>"This global analysis showed that Durrell has led or supported programmes that have saved 18% of these species."</i> Durrell Zoo TAR 2021
Stated impact	Material that the charity considers to be evidence of impact, as opposed what the input-impact model defines as impact.	<i>"Our impact: Wherever we find a donkey in need, we try to help. Through 2021 we: Attended 942 welfare complaints..."</i> Donkey Sanctuary Vision and IR 2021
Item	Definition	Example
Panel B: Nature of impact data		
Quantitative: survey result	Quantitative data captured from a survey conducted regarding charitable intervention.	<i>"recording a reduction in risk to victims in 82% of cases and research showing a substantial reduction in the use of abuse"</i> SafeLives IR 2020
Quantitative: non-survey quantitative result	Quantitative data captured by non-survey means including externally available/sought data.	<i>"Magic Breakfast's provision at key stage 1 can lead to 2 months additional progress for pupils over the course of an academic year"</i> Magic Breakfast TAR 2021
Qualitative: case study or anecdote	Qualitative data captured in regard to a service-user about the effect of an intervention. Written in the third person and descriptive in nature. Presumed to be collected unrepresentatively.	<i>"You see quite significant improvements in gait and balance and walking after just one session"</i> Imperial Health Charities TAR 2021
Qualitative: service user testimonial	Qualitative data captured from an individual service user about the effect of a charitable intervention. Written in	<i>"If someone didn't save my life with naloxone, I wouldn't be here today."</i> Barod AR 2021

	first-person and narrative in nature.	
Panel C: Other impact considerations / reflections		
Method of capture	A description of the process by which the charity gathers and/or analyses data relating to its interventions.	<i>“The next stage of our impact journey will be to conduct further granular analysis on this data set.”</i> Brightside TAR 2020
Theory of change or social value	Application or discussion of ‘theory-of-change’ model or ‘social value’.	<i>“Central to UKGBC’s theory of change is the critical role that we play in advocating for more ambitious commitments from businesses in the built environment sector.”</i> UKGBC IR 2021
Impact – discussion	Discussion of impact (according to the input-impact model definition) that is not in relation to the captured impact of specific charitable interventions.	<i>“We aspire to move to a model of impact reporting to measure our achievements and performance”</i> Royal Scottish Forestry Society TAR 2020

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