



## Accounts Monitoring Review

# Public benefit reporting by charities

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### About our accounts monitoring reports

Charities' accounts are publicly available on [GOV.UK](https://www.gov.uk). Each year, we monitor a sample to check compliance with the Charities Statement of Recommended Practice (SORP) and to identify issues of regulatory concern. We are publishing a series of reports on our findings, which will help trustees to manage the risks that their charity faces, improve reporting standards and enhance the accountability of charities to their donors, beneficiaries and the public.

### The scope and purpose of this review

This review looked at the quality of public benefit reporting. Public benefit is at the heart of what charities are about. In reviewing charitable purposes, Parliament emphasised the importance of public benefit by introducing in the Charities Act 2006 an obligation on charity trustees to have regard to the commission's guidance on public benefit. 'Have regard' means trustees should be able to show that they are aware of the guidance and have taken account of it when making a decision to which the guidance is relevant. All registered charities must publish a trustees' annual report (annual report) and this must set out the charity's activities for the public benefit. By reporting on public benefit, trustees identify that their charity is effectively doing what it was set up to do and is making a difference to its beneficiaries.

We chose this topic as one of our key performance indicators for 2014-15 and we published a report of our findings in March 2015, based on samples of annual reports submitted for financial years ending in the 12 months to 31 March 2012 and 2013. In our report, we made a commitment to carry out a follow on study to identify whether the level of public benefit reporting continues to improve. We have therefore used the same methodology to review the quality of public benefit reporting in the following year's annual reports.

The indicator chosen measures 'The percentage of trustees' annual reports that demonstrate a clear understanding of the public benefit reporting requirement'. The term 'public benefit reporting' refers to 2 requirements that the annual report must include:

- an explanation of the activities undertaken by the charity to further its purposes for the public benefit
- a statement by the trustees as to whether they have had regard to the commission's guidance on public benefit

We have based our definition of what constitutes 'demonstrating a clear understanding of the public benefit reporting requirement' on the principles set out in our guidance 'Public benefit: reporting (PB3)'.

## How we carried out the review

In September 2015 we selected a random sample of 109 charity annual reports from the register of charities, covering accounting years ending during the 12 months to 31 March 2014. This sample size means that our findings are statistically representative of the accounts filed with us for this period. However, as with all samples, the percentage of annual reports that demonstrate a clear understanding of the public benefit reporting requirement on the register as a whole will fall within a range either side of the sample percentage reported. We have selected the sample in the same way as we did for the previous 2 years and so we can measure whether the quality of public benefit reporting has improved over time. Charities with an income less than £25,000 are not required to file their annual report with us and so are not included in this review.

## What we found

### The percentage of annual reports that met the public benefit reporting requirement

The results of our assessment are summarised in the table.

Period ended/% of annual reports assessed	2011-12	2012-13	2013-14
Charities including a report of the activities undertaken to further their purposes for the public benefit	44%	64%	59%
Charities including a statement as to whether they have had due regard to our guidance on public benefit	44%	47%	56%
<b>Charities meeting the public benefit reporting requirement (both of the above)</b>	<b>27%</b>	<b>35%</b>	<b>45%</b>

It is encouraging that the percentage of charities' annual reports that demonstrated a clear understanding of the public benefit reporting requirement has increased again this year, although we should point out that the difference is within the range of sampling error. However, the level of fully compliant reporting remains far below what we would wish to see. As we concluded in last year's report, if the purpose of the charity sector is to make a difference to the lives of the beneficiaries it serves, too few charities are reporting fully on how well they are doing.

The percentage of annual reports including a public benefit statement has also increased again this year, which suggests that the level of awareness of the requirements is increasing. However, the percentage of annual reports that show that the trustees have in fact considered how their charity's activities provide public benefit has not maintained the large increase seen in the previous year.

As in the previous 2 years, there were several poor quality submissions. 2% of charities did not file any form of report and a further 5% provided notes of their annual general meeting/a chairperson's statement/a treasurer's report. While some of these documents provided information on the charity's activities, they fell well short of the requirement to prepare an annual report, let alone to report on public benefit.

## Analysis of the percentage of annual reports that included a report of the activities undertaken by the charity to further its purposes for the public benefit

This element of the public benefit reporting requirement can be broken down into 3 parts. A charity's annual report is required to:

- explain what the charity is there to achieve (its purposes)
- explain what the charity has done during the year to carry out those purposes (its activities)
- explain who benefits from the charity's activities (the public benefit)

We assessed these 3 parts separately and the results are shown in the following table.

Period ended/% of annual reports assessed	2011-12	2012-13	2013-14
Charities including a statement of their purposes	81%	88%	94%
Charities including a summary of their main activities to carry out their purposes	71%	80%	88%
Charities describing how their activities had led to benefit for their beneficiaries	55%	65%	59%
<b>Charities including a report of the activities undertaken to further their purposes for the public benefit (all 3 of the above)</b>	<b>44%</b>	<b>64%</b>	<b>59%</b>

- Including a statement of the charity's purposes

We were pleased to find that the percentage of annual reports including a statement of the charity's purposes has improved in each of the last 2 years. This year all of the charities which submitted an annual report, as opposed to some other document, included a statement of their charitable aims or objectives within it.

- Including a summary of the charity's activities

The percentage of annual reports including a summary of the charity's activities has also improved in each of the last 2 years. This year, the vast majority of annual reports provided information on the charity's charitable activities, as did a couple of the other documents submitted. The few annual reports which failed to describe the charity's activities appear to have assumed that they were obvious to the reader.

- Including an explanation of how the charity's activities had led to benefit for its beneficiaries

Unlike the purposes and activities criteria, the percentage of annual reports explaining who had benefitted from the charity's activities has fallen this year. Just under 60% of the annual reports met the criteria. As we reported last year, the assessment of whether an annual report meets this requirement involves a degree of judgement. The annual reports which did so had described their activities in a way which demonstrated that the trustees had considered how those activities had led to benefit for the charity's beneficiaries. A common example was service providing charities giving quantitative information about the numbers of beneficiaries who had used their services during the year. Other charities used qualitative information, such as religious and other community-based charities describing how they had made their buildings and activities available to their local community. The best examples had gone further by considering the difference that the charity's activities had made to the lives of their beneficiaries and/or to the wider public.

## What action we took

We have reviewed the most recent accounts submissions of the 2 charities in our sample that did not submit any form of annual report, to check whether this is a continuing issue. Both charities have submitted accounts for their following financial year, but neither included any form of annual report. We will require the trustees to submit an annual report for their charity's most recent accounts. We will also provide the other charities which did not meet the public benefit reporting requirement with a link to our guidance on public benefit reporting.

Since we published our previous report, we have looked for opportunities to raise awareness of the public benefit reporting requirement amongst trustees. In April 2015, we included an article in CC News citing our guidance on public benefit. CC News is the commission's quarterly online newsletter, sent to all charity contacts and trustees on our register for whom we have an email address. In August 2015, we reissued an updated version of one of our most important and popular pieces of guidance: 'The essential trustee (CC3)'. The updated guidance explains much more clearly the trustees' responsibilities for carrying out their charity's purposes for the public benefit. We should also highlight that the new SORPs, which came into effect for accounting periods beginning on or after 1 January 2015, place greater emphasis on public benefit reporting within the annual report. In particular, charities are encouraged to identify the difference that their work has made to the circumstances of their beneficiaries and, if practicable, explain any wider benefits to society as a whole. We hope that the changes to these key sources of guidance will help trustees to meet their responsibility to report on public benefit in their charity's annual report.

## Lessons for other charities

The preparation of an annual report, of which public benefit forms an important part, is a statutory requirement. However, to see it solely in those terms is to miss the opportunity it provides for charities to 'take stock' of how well they are meeting their objectives and the difference that they have made to their intended beneficiaries. A good annual report can also help a charity 'tell their story well' to supporters, potential funders and the public.

Our guidance on public benefit reporting includes a pro-forma annual report that provides a useful structure for preparing a document that meets the public benefit and other reporting requirements. This guidance, including the other documents referred to in this report, can be downloaded from [GOV.UK](http://GOV.UK).