



Accounts Monitoring Review

Public benefit reporting by charities

About the commission's 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 and improve reporting standards.

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. All registered charities are required to publish a trustees' annual report (annual report) and, since 1 April 2008, this must set out the activities that the charity has undertaken 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 therefore chose this topic to be one of our key performance indicators for 2014-15. The indicator chosen measures 'The % of trustee annual reports that demonstrate a clear understanding of the public benefit reporting requirement'. The term 'public benefit reporting' refers to two 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'.

Following the introduction of the public benefit reporting requirement, we commissioned a study from Sheffield Hallam University (SHU) to assess how well charities were getting to grips with it. Their findings were published in June 2011 ('Public benefit reporting by charities'). This report is a follow-up review to assess progress in the quality of public benefit reporting.

How we carried out the review

We selected two random samples of charity accounts from the register of charities in September 2014. One sample of 108 charities covered accounting years ending during the 12 months to 31 March 2012. The other sample of 107 charities covered accounting years ending during the 12 months to 31 March 2013. By taking samples from successive years, we can measure whether the quality of public benefit reporting has improved over time. We chose these periods because we wanted our samples to include charities that had filed late. The size of the random samples means that our findings are representative of the annual reports held on the register for those periods, although we must emphasise that this statement comes with a significant margin of error¹. We should also point out that charities with an income less than £25,000 are not required to file their annual report and accounts with us and so are not included in this review.

Our review is not as comprehensive as that of SHU's 2011 report. Their research used a more detailed methodology for assessing the annual report and was based on a much larger sample that included all sizes of registered charity. Although not directly comparable, the SHU study represents a helpful reference point. In particular, SHU found that only 35% of the annual reports that they reviewed either fully met the public benefit reporting requirement or came close to so doing.

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
Charities including a report of the activities undertaken to further their purposes for the public benefit	44%	64%
Charities including a statement as to whether they have had due regard to our guidance on public benefit	44%	47%
Charities meeting the public benefit reporting requirement (both of the above)	27%	35%

Our finding that the majority of charities' annual reports were not 'demonstrating a clear understanding of the public benefit reporting requirement' is disappointing. The level of fully compliant reporting may be improving from a low base but it remains far below what we would wish to see. 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.

It is also worth highlighting that just under half of the charities in the earlier sample and the majority of charities in the later sample met at least one of the individual elements of the public benefit reporting requirement. Less encouragingly, 40% of the annual reports reviewed by SHU had included a public benefit statement, which indicates that the level of awareness of this requirement does not appear to have improved significantly over time.

¹ In statistical terms, a random sample of 96 is sufficient for us to be 95% confident that, if we had reviewed all the annual reports submitted to us in each year, the percentage that we assessed as meeting the performance indicator's requirements would lie within 10 percentage points either side of our results.

SHU found that the quality of public benefit reporting was highest amongst the largest charities, those with incomes over £500,000. Our sample sizes are not large enough to make statistically robust statements about sub-groups within the population. Given this caveat, we can infer from our findings that this is still the case, with 53% of the 15 large charities in our earlier sample and 76% of the 21 large charities in our later sample meeting the requirement. Alongside this observation, it is important to recognise that the annual reports submitted by the smaller charities in the samples also provided some good examples of public benefit reporting. We have included some examples in an appendix.

It is concerning that 6% of the charities in the earlier sample and 5% of those in the later sample did not submit any form of annual report. A further 6% of the earlier sample and 3% of the later sample submitted a chairperson's statement or notes of an annual general meeting. Whilst some of them gave useful information on the charity's activities, these documents do not meet the requirement to prepare an annual report.

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 three 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 three parts separately and the results are shown in the following table.

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

Including a statement of the charity's purposes

The vast majority of charities which submitted an annual report included a statement of their charitable aims or objectives, typically basing it on their governing documents. If a charity does not state its purposes, it is difficult for the annual report to demonstrate how the activities carried out do in fact further those purposes.

Including a summary of the charity's activities

A large majority of annual reports also provided information on the charity's charitable activities, as opposed to fund raising or other support activities. Some of those which failed to meet the criteria had made general statements which gave the reader little useful information, along the lines of 'the charity continued to carry out its charitable purposes'. Others seem to have assumed that the charity's activities were obvious from its name.

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

The majority of annual reports did explain who had benefitted from their activities, including some that had not adequately described their purposes or activities. The assessment of whether an annual report met this requirement involved 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 12 charities in our samples that did not submit any form of annual report, to check whether this is a continuing issue. The income of one charity has now fallen below the threshold for submitting accounts to us. Ten of the remaining charities have submitted more recent accounts than those we reviewed. Eight did not include any form of annual report, whilst the other two included notes of their annual general meeting or a Chairman's statement. We infer a low level of awareness in this group of charities of the requirement to complete an annual report. We are contacting the trustees and will require them 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 requirements with a copy of our guidance on public benefit reporting.

New SORPs come into effect for accounting periods beginning on or after 1 January 2015. The new SORPs 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 are also updating one of our most popular pieces of guidance: 'The essential trustee (CC3)'. The updated guidance will explain much more clearly the trustees' responsibilities for carrying out their charity's purposes for the public benefit.

What action we will be taking

Following on from the report, we will be taking a number of actions to make trustees aware of their reporting obligations. In particular, we will be including a follow up 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.

We will be highlighting the importance of public benefit reporting in our liaison with professional and sector umbrella bodies and in communications around our guidance on charity accounting and reporting.

We will carry out a follow on study to identify whether the level of public benefit reporting continues to improve.

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](https://www.gov.uk).

Appendix: examples of public benefit reporting

The three examples are taken from the annual reports that we reviewed for this report. We have chosen them as practical examples of how charities involved in different types of activity have met the public benefit reporting requirement.

Bognor Housing Trust: registration number 289596 (income £266,000)

This charity is an example of a service provider to a specific group of beneficiaries. We included this annual report because the public benefit statement went beyond the inclusion of a 'standard' sentence and because the annual report described not just the charity's activities, but also made an assessment of how successful they had been in making a difference to the lives of its beneficiaries.

Edited extract from the trustees' annual report: year ended 31 March 2012

Objectives and activities

The charity's objects and principal activities are:

- to manage and improve in Bognor Regis and elsewhere houses and hostels for persons specified in the constitution, and to provide them with care and security to which they are entitled
- to work towards addressing the numbers of people that are homeless in our society

Public benefit

We have referred to the guidance contained in the commission's general guidance on public benefit when reviewing our aims and objectives and in planning future activities. The trustees consider that the charity's activities reflect our aims and objectives, and that they are designed to provide accessible services and activities that benefit the appropriate sector of the public in accordance with our charitable activities.

Achievements and performance

During the year our 22 supported units were occupied by a total of 50 clients. I am pleased to report that there were 38 (2011: 36) client moves from our accommodation during the year, of which 85% (2011: 70%) were planned, thus enabling 24 positive outcomes as a result of our support programme.

Bankside Gallery Limited: registration number 293194 (income £331,000)

This charity is an example of an arts and culture charity with 'the general public' as its beneficiaries. We included this annual report because the charity used its public benefit statement to explain how it provided public benefit and because the annual report included qualitative as well as quantitative measures of its activities.

Edited extract from the trustees' annual report: year ended 31 December 2012

Objects and aims

The company's objects are to promote the benefit, enjoyment and appreciation of the visual arts by the general public... Bankside Gallery Limited aims to achieve its objects by being acknowledged as a centre of excellence for watercolours and printmaking.

Public benefit

The Board of Directors has paid due regard to the commission's guidance on public benefit in deciding what activities the charity should undertake. Bankside Gallery Limited recognises and welcomes the need to carry out its charitable activities for the benefit of the general public, and retains this aim at the centre of its strategic planning. The company offers free admission to all of its exhibitions and continues to work to increase the amount and breadth of education work it carries out in the local community and beyond, seeking to involve people from the widest possible range of backgrounds and abilities.

Achievements against objectives

Bankside Gallery Limited set out, at the start of 2012, to:

- give 17 exhibitions at Bankside Gallery, due to the economic downturn, only 15 took place
- host the Royal Societies' annual programme of educational demonstrations, talks and courses - this aim was achieved
- admit 40,000 members of the public to the gallery - this aim was exceeded with 58,940 members of the public being admitted

Harpsden Pre-School Playgroup: registration number 1029269 (income £60,000)

This charity is an example of one of the many smaller charities in our samples working in their local communities. We included this annual report because the charity had used our pro-forma annual report and because the description of its activities was focussed on its beneficiaries.

Edited extract from the trustees' annual report: year ended 31 August 2012

Summary of the objects of the charity set out in its governing document

The pre-school aims to provide a safe and caring learning environment, free from prejudice and discrimination, for children aged 2½ to 5 years old.

Summary of the main activities undertaken for the public benefit in relation to these objects (include within this section the statutory declaration that trustees have had regard to the guidance issued by the commission on public benefit)

The pre-school provides supervised sessions for pre-school children four mornings a week, Monday to Thursday 9.15 am to 12. A one hour lunch club session was offered on Mondays and Tuesdays open to children attending primary school the following year focussing on preparing them for this transition. There was also a Thursday lunch club session open to all children.

The pre-school plans and provides activities and play opportunities to develop the childrens' emotional, physical, social and intellectual capabilities. Appropriate facilities and equipment are provided in order to achieve this.

The sessions take place in Harpsden village hall which benefits not only from a large indoor space but also from a beautiful adjoining field for outdoor play and activities. The hall is surrounded by farmland.

The trustees have had regard to the guidance issued by the commission on public benefit.

Summary of the main achievements of the charity during the year

The pre-school continued to provide high quality care and education to the children attending.

Childrens' highlights: The children had a busy year with highlights including their Christmas and Easter performances, the 'Drawback Hill Challenge', sports day and a leavers' party. The children also enjoyed a visit from children's author Nick Butterworth along with regular visits from the community police officers and the vicar.