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From 2003 to 2007 Paul was the Chair of Charity Finance Directors Group. He was made an honorary life member in 2008 and is currently Chair of the CFDG Impact Reporting Steering Group. He continues to write and speak on a number of topics in relation to finance in the ‘beyond profit’ sector, is a Charity Trustee, a member of Amnesty International’s Finance and Audit Committee and the Audit Committee of the Nuffield Foundation, and is an actively involved in his church and local community as a volunteer youth and children’s worker.

Nicola Robert

Nicola Robert runs her own consultancy advising charities on finance, strategy and governance. She is a Trustee of Saffron Screen, an award winning independent cinema, and Vice Chair of Uttlesford Citizens Advice Bureau. Nicola had a wide-ranging career in the private sector, working for Ernst & Young and SWIFT in London and Brussels, before moving into the charity sector where she has held senior finance positions at The Queen's Nursing Institute, the Who Cares? Trust and Saffron Screen. She has also been a volunteer advisor for Citizens Advice. Nicola is a member of the Institute of Chartered Accountants of England and Wales and a recent graduate of the CASS Business School MSc in Charity Accounting and Financial Management.

Kate Harrison

Kate Harrison is the Planning and Forecasting Manager at the British Heart Foundation, having joined the BHF three years ago after training as an accountant and auditor at the National Audit Office. Kate is a member of the Institute of Chartered Accountants of England and Wales and a recent graduate of the CASS Business School MSc in Charity Accounting and Financial Management.
FOREWORD

Caron Bradshaw

CFDG have long advocated that reporting on a charity's performance should go beyond mere compliance. Finance professionals are so much more than gatekeepers to charities' funds. Steadily over the last twenty years our members have been on a journey, transforming their role from stewards to leaders, and this report provides a significant and useful contribution.

Reporting the impact a charity has is a positive step which can engage and inspire external stakeholders - connecting with donors, demonstrating value to funders and attracting new support. However this report shows that there are barriers for charities wishing to report on their impact. Reporting should be flexible and proportionate to the charity's size and activities - one size will not fit all. Funders must recognise and provide for the additional costs associated with having good information on performance. CFDG have a key role to play in supporting charities in developing best practice and sharing their experiences through guidance and services, in order that impact reporting can become a positive and valuable contribution to charities and not a burden.

Caron Bradshaw
Chief Executive Officer, Charity Finance Directors’ Group

Professor Paul Palmer

A common misconception about Impact Reporting is that it is only a requirement for those charities in receipt of government funding – ‘It does not apply to us!’ But funders, whether they be Charitable Foundations, Companies or Philanthropists, have a keen interest in how effectively their “investment” has been spent. Charities that are able to competently document and communicate their stewardship will be far more effective in retaining and raising funds than those who do not. This will be even more important in a time of austerity.

This excellent research, undertaken by two students of the Cass Business School Masters in Charity Finance, reports a diversified picture - from examples of cutting edge practice to charities who either do not wish, or seem unable, to engage in impact reporting. I hope this report will be able to energise and convince those who do wish to communicate their charities achievements more systematically, that it does not have to be an expensive and laborious process.

Professor Paul Palmer
Associate Dean and Director of the Centre for Charity Effectiveness
Sir John Cass Business School, London
CONTENTS

EXECUTIVE SUMMARY 4

THE RESEARCH: WHAT IS THE STATE OF IMPACT REPORTING IN THE UK CHARITY SECTOR? 6

1.0 Introduction 6

Background 6
Definitions 7

2.0 Methodology 9

3.0 Research Findings 10

Extent and quality of impact reporting 10
Assessing, measuring and explaining outcomes and impact 11
Audience and communication channels 12
Motivations, barriers and costs 12

4.0 Evaluation of Research Findings 14

The gap between theory and practice 14
The future for impact reporting 16

CFDG CONCLUSIONS AND RESPONSE 17

Conclusion 17
Impact reporting: CFDG position 18
EXECUTIVE SUMMARY

Charity Finance Directors’ Group believes that public trust and confidence are essential for an effective and successful charity sector, and that high standards of financial management and performance reporting are an important part of maintaining this. Charities are under more pressure than ever before to show that they are trustworthy, accountable and contribute to society.

Over recent years, one approach that has been taken by many charities to measure and communicate performance has been ‘impact reporting’, either in separate documents, as part of the Trustees’ Annual Report and Accounts or using the internet. The whole area of external performance reporting is, however, complex and practice is varied. The academic and practitioner literature suggests that while there is a great deal of evidence for increased interest in impact reporting, charities face significant barriers to implementing it. With this in mind CFDG has commissioned research to explore the current state of impact reporting in the UK charity sector.

The research was completed by Kate Harrison and Nicola Robert, two students from Cass Business School, between April and October 2010. In addition to assessing the extent and quality of impact reporting currently being produced, the project collected practitioners’ experiences of impact reporting (methodologies, costs, benefits, practical challenges) as well as their views on likely future directions and how CFDG could support them. Methods included an online survey of CFDG members, a series of focus groups and a review of the external reporting of a sample of 75 charities both large and small, and not limited to members of CFDG.

Research findings

Reporting by charities on their impact (the broader or longer term change resulting from their activities) was limited with only 8% of charities in the review of external reporting providing impact information. Many more charities (68%) provided some information on outcomes but few disclosed targets, measured the change delivered or reported failure, all of which would help stakeholders assess the difference they have made.

There is a gap between the ‘theory’ of impact reporting, in which the Government and sector specialists suggest that all charities can and should measure and report on their impact, and what is actually happening in ‘practice’. This reinforces the view that the sector and the Government need to reassess expectations of what is practical or desirable for charities to measure on a regular basis.

Explanations for this gap include significant barriers to outcome and impact reporting such as resource pressures. Charities report problems in funding the work and only 65% of CFDG respondents believe that the benefits of impact reporting outweigh the costs. Difficulties were identified in obtaining good quality baseline data and attributing positive outcomes to an individual charity.
The research also found confusion about the terminology and a lack of demand from some audiences. The diversity of the charity sector, which includes organisations with a wide range of income levels, funding streams and activities mean that impact reporting is only felt to be important by some. The research suggests that charities may collect performance information internally but choose not to report it externally, highlighting that there are sometimes conflicts between the desire to be transparent and the commercial reality that some charities need to retain confidentiality in competitive environments.

In the future, many charities expect to see increased regulatory requirements for impact reporting, greater use of quantitative methods such as Social Return on Investment (SROI) and external verification of impact information. However, there are significant concerns about the implications of these developments for the sector. A significant proportion of charities have an annual income lower than £1 million and could not afford SROI or external verification. There are also fears that it could lead to simplistic and inappropriate cost ratio comparisons.

**CFDG and impact reporting**

The research recommends that CFDG should actively contribute to the debate about impact reporting, seeking to influence policy makers and funders and explaining the practical challenges faced by the majority of charities. It should provide support to those members who wish to pursue outcome and impact reporting, recognising that the extent to which this is possible or desirable for different charities will vary.

**CFDG five point response**

CFDG welcomes the research as an important contribution to developing both understanding and debate about the use and value of impact reporting and offers the following five point response:

- It is essential that charities engage with the topic of external performance reporting and the sector needs to do more to develop good practice.

- CFDG seriously question the benefits of any ‘one size fits all’ solution being imposed by regulation. Good impact reporting can be complex and costs of compliance are a particular concern for smaller charities. Impact reporting is important; however, for many purposes, simpler reporting of outputs and outcomes may well suffice.

- If performance reporting is built into funding relationships then it should be proportionate and the true costs of any monitoring and evaluation need to be understood as part of the commissioning exercise.

- CFDG has a central role to play in promoting good performance reporting and assisting charities in improving their practice in this area.

- In response to this research CFDG have established a steering group specifically to oversee best practice development and member services in relation to impact reporting.
**THE RESEARCH:**
**WHAT IS THE STATE OF IMPACT REPORTING IN THE UK CHARITY SECTOR?**

**1.0 Introduction**

**Background**

Charities are under increasing pressure to report their achievements systematically to external stakeholders. This is the result of a number of drivers including a growing role for voluntary organisations in the delivery of public services, more demanding funders and donors, the modernisation and professionalisation of the sector and changes to regulation. This report presents a summary of the findings from research, initiated by CFDG and carried out by two students from Cass Business School, examining the current state of impact reporting in the UK charity sector.

In 2007/2008 government funding amounted to £12.8 billion which is more than one third of the voluntary sector’s total income\(^1\). Earned income from delivering statutory contracts had increased to £9.1 billion, up 128% since 2000/01\(^2\). This increase in public funding, and involvement in the delivery of public services, has drawn charities into the target setting and ‘evidence based’ policy making which has characterised the public sector over the last 15 years, leading to an increasing interest in measuring outcomes.

The economic recession, and plans outlined by the Coalition Government to make significant cuts in public spending, will almost certainly mean a reversal in the growth of public funding for charities. However, this does not necessarily mean there will be less interest in measurement. The Conservative Party has regularly expressed its commitment to measuring social value and in an environment when funding is tight, it is likely to be increasingly important for charities to be able to demonstrate the impact of their activities\(^3\).

Charities have also been under pressure from grant funders, such as the Big Lottery Fund, which has described itself as ‘an outcomes funder’\(^4\), and companies investing in corporate social responsibility projects who are looking...

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3. Plummer, J. ‘Funding will depend on charities proving their impact, Hurd warns’, *Third Sector Online*, 16 September 2010: www.thirdsector.co.uk/News/MostRead/1029052/Funding-will-depend-charities-proving-impact-Hurd-warns/
for evidence of the impact of their investment\(^5\). Other recent research suggests that individual donors also care about competence and efficiency. However, these donors find making accurate assessments of charities difficult, relying on proxy measures such as the number of mailings received from the charity\(^6\).

Increasing professionalisation among charity staff has led management teams to adopt techniques from the public and private sectors, such as the Balanced Scorecard and cost benefit analysis (which has many similarities with SROI). These tools can support charities to both make the best use of resources by targeting them at ‘what works,’ and to demonstrate their achievements. The growing sense of a ‘sector’ has encouraged the sharing of ideas, benchmarking and a heightened awareness of what other charities are doing. Increased professionalisation has also led to more of a focus on the development of charity brands and there is a close link between brand, trust, giving and the perception of impact.

Regulation in the form of the public benefit test established by the Charities Act 2006, and the narrative reporting requirements in the Statement of Recommended Practice (SORP) 2005, has sought to improve charity reporting. The absence of any arrangement for the enforcement of common standards remains however, a key weakness. The former Chief Charity Commissioner urged the trustees of the largest 200 fundraising charities ‘to take the lead to improve the way charities communicate about their activities within their annual reports’\(^7\).

This emphasis on the measurement and communication of results reflects wider concerns about developing a sector that is trusted, accountable to its stakeholders and ‘valuable’ in its contribution to society. Despite this, there is a lack of information about the extent of impact reporting in practice. This research set out to address the knowledge gap and focused on the motivations, barriers and practical challenges faced by charities trying to collect information and report on their impact.

**Definitions**

The first challenge faced when researching impact reporting is over what the term impact actually means. In practice, outcome and impact are often used interchangeably. Despite this, some consensus in the literature seems to emerge around the definition of an outcome as:


\(^7\) Stoker, J. *Reporting Charities’ Performance and Achievements*: [www.charity-commission.gov.uk/Charity_requirements_guidance/Accounting_and_reporting/Preparing_charity_accounts/reporting.aspx](http://www.charity-commission.gov.uk/Charity_requirements_guidance/Accounting_and_reporting/Preparing_charity_accounts/reporting.aspx)
'the changes, benefits, learning and other effects that result from what the project or organisation makes, offers or provides'\(^8\).

Whereas impact relates to:

‘broader or longer term effects’\(^9\) which can be unintended or negative as well as planned and positive and to which the organisation has 'directly or indirectly’ contributed\(^10\).

Outcome is typically ‘experienced by specified individuals’ whereas impact is ‘the broader achievement of core societal objectives such as having a healthier, better educated society’\(^11\).

For the purposes of this research, the following working definitions were used\(^12\):

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<tr>
<td>Output</td>
<td>Products, services or facilities that result from an organisation’s or project’s activities.</td>
</tr>
<tr>
<td>Outcome</td>
<td>The changes, benefits, learning or other effects that result from what the project or organisation makes, offers or provides.</td>
</tr>
<tr>
<td>Impact</td>
<td>Broader or longer-term effects of a project’s or organisation’s outputs, outcomes and activities.</td>
</tr>
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\(^8\) Ashby, K. and Nee, C. Jargonbuster Issue No.1: Simplifying the language of planning, project management and performance improvement to increase understanding (p.6): http://www.ces-vol.org.uk/index.cfm?format=171

\(^9\) Ashby, K. and Nee, C. Jargonbuster Issue No.1: Simplifying the language of planning, project management and performance improvement to increase understanding (p.5): http://www.ces-vol.org.uk/index.cfm?format=171


\(^12\) Ashby, K. and Nee, C (as above p.5-6).
2.0 Methodology

The objective of this research was to assess the extent and quality of impact reporting currently being produced by charities and collect practitioners’ experiences of impact reporting (techniques, costs, benefits, practical challenges). The research also looked at likely future directions and how CFDG could support its members. The researchers used a range of quantitative and qualitative methods including a CFDG survey, a document review and a number of focus groups, enhancing the value of the research findings.

Three strands of research

1. CFDG Survey

An online survey of all CFDG member organisations was carried out during May 2010. Charities were asked for their views on the costs and benefits, motivations and barriers, difficulties and challenges related to impact reporting. 164 responded (c. 12% of CFDG members), with a bias towards larger charities. 11% of respondents had income lower than £1 million (compared with 16.5% of CFDG members), and 36% had income over £10 million (compared with 23% of CFDG members). The survey delivered a good spread across all charity subsectors. Given that it was intended to provide an insight into the subject rather than a basis of statistical extrapolation, the response rate and the bias towards larger charities has not reduced the relevance of the research.

2. External Reporting Review

The researchers reviewed the websites and externally available reports (Trustees’ Annual Report and Accounts, Annual Reviews and Impact Reports) of 75 UK charities for outcome and impact information. The quality of this information was assessed and scored against a framework identifying ten criteria for good quality impact reporting. The sample was selected from the Charity Market Monitor 2009 largest 300 fundraising charities, the membership of the Small Charities Coalition and the Charity Commission’s Register of Charities.

3. Focus Groups

Focus groups with CFDG members were used at two stages of the research. Firstly following the survey to obtain a deeper understanding of the results and to explore emerging themes, and secondly at the end of the project to discuss conclusions and next steps. They provided individual perspectives and experiences as well as triangulation of results. This method was chosen in preference to individual interviews because the interaction between participants highlighted the degree of consensus and allowed a discussion of future directions for impact reporting.
3.0 Research Findings

Extent and Quality of Impact Reporting

There was a significant difference between the findings of the external reporting review and the results of the CFDG member survey in relation to the extent of impact reporting. As shown in figure 3.1, 52% of CFDG survey respondents reported that they were collecting output, outcome and impact information but the external reporting review found that whilst 17% of the charities assessed were reporting on outputs, and 68% were also providing information on outcomes, only 8% were going beyond this to report on impact.

![Figure 3.1 Extent of reporting on outputs, outcomes and impact - comparison of the CFDG member survey and an external reporting review](image)

The contrasting results are partly explained by differences between the two research populations, with survey respondents tending to represent larger charities that were also more likely to be receiving Government funding. Survey respondents also reported a high interest in impact reporting, demonstrated by the fact that 85% thought impact reporting was important or very important for their organisation. There may also be some anomalies as a result of differing views on what constitutes outcome compared with impact information.

The external reporting review scored charities against ten criteria (the maximum possible score was twenty) and found significant variation in the quality of reporting. Some charities provided no evidence of outcomes or impact, whilst others showed promising practice by measuring, demonstrating and communicating their outcomes as well as disclosing some information on targets and failures. As noted above very few went beyond outcomes to provide information on broader or long term impact. The graph in figure 3.2 shows the distribution of charities across four groups defined by the researchers.
Assessing, measuring and explaining outcomes and impact

The external reporting review revealed that many charities are much better at explaining what they are aiming to achieve (their mission, goals and objectives), and the link between their outcomes and these aims, than at setting specific targets. While 66% linked aims and outcomes, only 32% disclosed any measurable targets. The external reporting review also showed that charities are better at demonstrating their outcomes and impact than they are at measuring them with 42% of the charities reviewed attempting to quantify the extent of change delivered, compared to the 68% who demonstrated it in some other way (for example using case studies).

There was limited analysis of the cost of individual outcomes, although a majority of charities in the sample (57%) made some link by using the same headings to report objectives and achievements in the Trustees’ Annual Report as they used to categorise charitable expenditure in the Statement of Financial Activities.

For the CFDG members who responded to the survey, internal evaluations were the most popular way to demonstrate outcomes or impact (91%), followed by quantitative evidence (70%) and case studies (69%). Despite the attention it has received, only 5% of CFDG respondents reported using SROI.

The majority of charities in the external reporting review did not publicly demonstrate that they are learning from their results in order to develop a cycle of improvement (only 36% achieved or partially achieved this) and similarly, few
charities (only 24%) reported failure. This does not mean that this information is not used as part of a learning mechanism internally.

**Audience and communication channels**

Separate impact reports are rare. Only 23% of CFDG respondents and 6% of charities in the external reporting review published a separate report, with the majority preferring to incorporate impact information in existing reports or else prepare narrower reports on specific areas of activity (e.g. impact of debt advice). The survey of CFDG members found that the Trustees’ Annual Report was the most popular channel for demonstrating impact, followed by the Annual Review and charity website. The variety of communication styles in evidence may be explained by the fact that a range of teams take responsibility for outcome and impact reporting in different organisations, including specialist strategy and evaluation teams, communications, finance, fundraising, operations and service delivery.

Government funders, beneficiaries, trustees and trust funders are the most important audiences for impact reporting, though there was scepticism as to how much external demand actually exists. An interesting finding was the relevance of impact reporting to internal audiences.

‘It helps us allocate resources in the best possible way in line with our organisational vision and strategies by learning about the effectiveness of the money spent.’

**Motivations, barriers and costs**

Among CFDG members, the key drivers for impact reporting are improving strategic focus, greater transparency and accountability, demonstrating professionalism, better communications with stakeholders, improved awareness levels and perceptions of their brand. There also appears to be an appreciation of the value of impact information for internal review purposes and organisational strategy.

‘Above all, it tells us what is working and what is not, so that we can refine our programmes to have maximum impact in the future.’

The greatest barriers are the availability of baseline data, identifying outcomes and impact, data collection and attributing change to an individual organisation. The mismatch between funder requirements and what is helpful or actually possible for charities to report on is a further significant difficulty.

Data collection represents the biggest cost of impact reporting, followed by analysis, design of measures, writing content and printing/publication. As shown in figure 3.3, 65% of respondents thought that the benefits exceeded the costs. This means that 35% of CFDG respondents, the majority of whom are actively involved in impact reporting, remain unconvinced.
Figure 3.3 The benefits versus costs of impact reporting
4.0 Evaluation of Research Findings

The gap between theory and practice

The results of this research suggest that there is a significant gap between the theoretical discussions about the importance of impact reporting and the reality of what most charities are actually doing. Using the definition of impact as broader or longer term change resulting from a charity’s activities, the research found very few instances of charities providing impact information in their external reporting. The research found that more than two thirds (68%) of charities were providing some information on outcomes. The quality, type and robustness of this reporting varied significantly from case studies and references to internal evaluations, to a few examples of comprehensive outcome-based statistics. Therefore, while charities are often able to demonstrate outcomes, they rarely measure this change. Below the reasons behind these findings are explored in more detail.

Practical barriers to impact reporting

One of the barriers identified by the research is the timescale over which impact needs to be measured. Impact reporting does not lend itself to an annual reporting cycle. Changes in personnel, the type of data collected and information systems present a major knowledge management and resource challenge. However, one might still expect charities to refer to longer term work they have undertaken on impact in their Trustees’ Annual Report or on their website.

Closely related to the observation above, cost was cited by 71% of CFDG respondents as a barrier to undertaking outcome and impact reporting. Feedback from the focus groups indicated that the reluctance of funders to pay for evaluation means that impact assessment has to be wholly funded from unrestricted income. The issue of cost is even more acute in smaller organisations, and since 76% of charities in England and Wales have income less than £100,000 per year, this means that the majority of charities lack the professional or financial capacity to undertake impact reporting. For organisations more concerned with raising enough money to survive and deliver their work, resource heavy approaches to impact reporting are low on the list of priorities. Additionally, the research found continued confusion about the terms output, outcome and impact. Difficulties in accurately measuring outcomes and impact represent a real barrier for many organisations which again exacerbates the strain on resources.

Lack of clear demand and absence of regulatory requirements

Whilst impact reporting is important for some charities, it is less relevant for others. For example, endowed charities with independent income streams and

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charities delivering specific local services may face fewer demands for evidence of results.

The most important audiences for impact reporting identified by the survey respondents were government funders, beneficiaries, trustees and trust funders, followed by the general public and individual donors - a wide range of audiences with different requirements which are difficult to meet in a single report. This is likely to contribute to the wide variation in quality and style of reporting, ranging from pure marketing literature with popular appeal to detailed assessments of performance targeted at a specialist audience. The focus groups were sceptical about the extent of demand from non-statutory funders, especially individuals.

The absence of any effective regulation or audit of reported information is another factor in the variation seen. Very few respondents identified the Charity Commission as an important audience for impact reporting. However, as the regulator, it is responsible for setting the minimum reporting standards. The current SORP allows charities considerable freedom in choosing what to report in the Trustees’ Annual Report and it is not yet clear whether the public benefit test will lead to improvements in this type of reporting.

Other factors influencing impact reporting

Although the research found relatively few examples of external impact reporting, CFDG members were extremely positive about the internal benefits that can be achieved with effective impact assessment. It contributes to staff and volunteer motivation, helps inform decision-making and plays an important role in organisational learning.

‘Impact reporting for us is about learning. We do this as part of our business, not to provide a single report. This is part of our DNA’.

There were many instances where charities hinted at internal evaluations, surveys or assessments, but did not include the results in their external reporting. This suggests that internal impact or outcome assessment may be more widespread than the evidence of external reporting would suggest, although it could be at the level of individual projects rather than the organisation as a whole.

The choice of information reported may be restricted by resources, skills and the availability of suitable data, but charities can also make a deliberate choice to exclude certain information. The research found almost two thirds of charities did not explain how they learn from results and less than a quarter acknowledged areas of their work where they had failed to achieve an aim or target. As one focus group member pointed out, charities are understandably wary of publicly acknowledging failure if this could put them at a disadvantage when bidding for contracts or attracting voluntary income. This raises the question of whether charities should report both success and failure to their stakeholders in order to increase transparency.

Whether or not they choose to publish this information, if charities are not assessing their impact internally and setting measurable targets, they could be restricting the line of sight between the cost of charitable activities and the
difference made by those activities - necessary information to make good decisions about the targeting of resources in financially strained times.

**The future for impact reporting**

The research identified three future developments expected by CFDG members:

- The emphasis which the current Coalition Government has placed on measuring social value and the prominence of SROI, which is rapidly becoming the most widely recognised and advocated measurement tool, suggest that pressure to quantify impact in monetary terms is likely to increase.

- Demand for quantification could lead to increased demand for those figures to be audited, although it is unclear what level of assurance audit firms can provide and at what cost to charities.

- Whilst there is no evidence of any appetite for increased regulation, respondents to the survey expected more prescriptive requirements for the Trustees’ Annual Report in the next version of the SORP.
CFDG CONCLUSIONS AND RESPONSE

Conclusions

It is essential that charities engage with the topic of external performance reporting. The evidence in this research indicates that even some of the largest charities in the UK are at a relatively early stage of developing a complete and sustainable impact measurement process. Some of the most promising examples of clear and engaging external reporting often only included outputs and outcomes rather than long term impact.

The significant gap between theory and practice in relation to impact reporting by charities in the UK will only be narrowed if and when more charities become convinced that outcome and impact reporting can benefit them and they can do it in a way which is appropriate to their needs, and those of their stakeholders and beneficiaries. CFDG has a role to play in engaging in the debate on impact reporting, communicating the practical issues facing charities to decision makers and helping those charities which want to pursue outcome and impact reporting to overcome some of the practical barriers of doing so. Further research into the attitude of charity stakeholders (for example, funders, beneficiaries, individual and corporate donors) towards impact reporting would be valuable in order to assess more comprehensively the level of demand for it.

Regulatory compliance

The sector needs to do more to develop good practice but CFDG would seriously question the benefits of any ‘one size fits all’ solution being imposed by regulation. Good impact reporting can be complex, costly, long term, and does not necessarily fit into the annual cycle. Indeed, in the research only 65% of survey respondents believed that the benefits of impact reporting outweighed the costs, and as always, compliance costs are a particular concern for smaller charities. Charities clearly have a responsibility to demonstrate public benefit and impact reporting can be part of this, but developing clear and simple reporting techniques in general should be a priority. In many cases simpler reporting of outputs and outcomes may well suffice.

The ‘push’ and ‘pull’ of the funding relationship

Regulation is of course only part of the picture. Charities are more likely to adopt their external performance reporting approach as a result of either ‘push’ or ‘pull’ in relation to their funding relationships. In terms of ‘push’ charities want to demonstrate the work that they do to funders, beneficiaries, policymakers and their other key stakeholders. Particularly for charities relying heavily on voluntary funding, there may be a stronger case to develop impact measurement techniques to give them competitive advantage as part of their external reporting. In terms of ‘pull’ we are already beginning to see funders having more exacting requirements in terms of formal evaluation of outcomes and even impact. Therefore, in a tough commissioning environment and a tighter grant funding environment for trusts and foundations, it is likely that this is going to be increasingly important.
The level and nature of any outcome or impact reporting is for the funder and funding recipient to agree. However, for funding to be efficient the true costs of any monitoring and evaluation need to be understood as part of the commissioning exercise. There is a general need for greater consistency in the process of applying for and evaluating use of funds; this should not be confused with a need for a prescriptive requirements for reporting impact. A recent report by the NCVO Funding Commission suggested that funders may have a role to play in enabling charities within particular sub-sectors to use shared frameworks for reviewing common outcomes\(^\text{14}\). This would provide better quality data for measuring longer term effects and would promote knowledge transfer and learning mechanisms which have been identified as a real benefit of formulating impact information.

**Impact reporting: CFDG position**

**Summary**

Impact reporting is an important technique for charities to use. However, CFDG would be concerned with simple measures being imposed on charities to create consistency and comparability, which may be too reductive. Not everything in a social context can be measured simply or quantitatively. Good, tailored, performance reporting can help a charity to demonstrate the outcome and impact of its work and has a role to play in statutory reporting and in wider charity communications, either with specific funders or with the general public.

It is encouraging that there are examples of promising practice in different areas of impact reporting identified in the research. CFDG has a role to play in promoting good performance reporting and assisting charities in improving their practice in this area.

CFDG vocally encourage charities to look at their approach to performance reporting, be it impact reporting or outcome reporting. There is a strong link here with the annual reporting cycle, the quality of charity accounts and the need for high quality financial and non financial information in order to govern and manage charities effectively. One of many roles of the contemporary Finance Director is to be engaged with the external communication of performance, including outcomes and impact, as well as financial results.

**Key points and next steps**

- It is essential that charities engage with the topic of external performance reporting and the sector needs to do more to develop good practice.

- CFDG seriously question the benefits of any ‘one size fits all’ solution being imposed by regulation. Good impact reporting can be complex and

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costs of compliance are a particular concern for smaller charities. Impact reporting is important; however, for many purposes simpler reporting on outputs and outcomes may well suffice.

- If performance reporting is built into funding relationships then it should be proportionate and the true costs of any monitoring and evaluation need to be understood as part of the commissioning exercise.

- CFDG has a central role to play in promoting good performance reporting and assisting charities in improving their practice in this area.

- In response to this research CFDG have established a steering group specifically to oversee best practice development and member services in relation to impact reporting.
Charity Finance Directors’ Group

The Charity Finance Directors’ Group (CFDG) is the charity that champions best practice in finance management in the charity sector.

Our vision is a transparent and efficiently managed charity sector that engenders public confidence and trust. With this aim in sight, CFDG delivers services to its charity members and the sector at large which enable those with financial responsibility in the charity sector to develop and adopt best practice.

With more than 1700 members, managing over £21.75 billion, (which represents around half of the sector’s income) we are uniquely placed to challenge regulation which threatens the effective use of charity funds, drive efficiency and help charities to make the most out of their money.

For more information, please see www.cfdg.org.uk

The Charity Finance Directors’ Group is a registered charity, number 1054914

It is also a company Limited by Guarantee, number 3182826