



Impact Maturity for Charities

Charity Finance Group Workshop 2
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Charities by definition are purpose-based organisations whether that is delivering programmes for changes and outcomes, leading societal change, or influencing others by calling out the truth. So understanding the impact they create, and hence the public benefit delivered, has always been at their core. This document is a summary of a digital workshop session delivered in June 2022 as part of the Charity Finance Group annual conference 2022 and linked to the theme of being purposeful and empowering.

The session considered Impact Maturity as an organisation, and addressed if the participant's charities accounting and governance is helping them to optimise the organisation's impact.

The workshop was led by Sudhir Singh from MHA, Jim Clifford OBE from Sonnet Advisory & Impact and Liz Walker from The Children's Society.

Introduction

For many charities the need to think about impact assessment is prompted by the reporting requirements of the Charity Statement of Recommended Practice (SORP) for statutory financial statements.

What does Charity SORP say about impact reporting?

The requirement relates to the content of the narrative reporting aspects of the Trustees' Annual Report. The SORP describes impact reporting as the "ultimate expression of performance of a charity". But this is a "may" requirement – not a "must", so does not have to be adopted

This requirement does not only apply to large charities but small charities too – their requirement is to report on the "difference made to beneficiaries"

But many charities large and small struggle to provide clear accountability

Why is impact reporting typically limited or lacking maturity?

There is an old adage, "You cannot fatten a pig by weighing it more often" – So it is with impact reporting, which can be meaningless unless consideration of impact is embedded within the DNA of the charity.

It should be noted that the Charity SORP consultation is currently discussing impact reporting requirements and barriers are being identified. There is broad support to increase this reporting requirement in the revised SORP, but the level of disclosure may be proportionately based on size of the charity.

It is clear that effective reporting is dependent on a mature approach to impact, which is explained below.



Why is a mature approach to impact increasingly important?

There are many reasons why this is important for charities including that:

- Funders and supporters expect it
- Beneficiaries deserve it
- Charities can manage risks effectively through it
- Limited resources are better used by it
- Revised Charities SORP is expected to say you must do it

What areas were explored in this workshop session?

Accounting, reporting and governance of impact are important in charity:

1. Delivery – the programmes of activities we undertake
2. Leadership – in our relationships with our stakeholders
3. Influence – by the examples we provide and the advocacy we offer
4. Accountability – in our accountability models and the information that provides to our decision-making

So certainly not all about financial reporting.

Definitions

What is impact?

With an OUTCOME being the change arising in the lives of beneficiaries and others (including the environment), IMPACT is the extent to which that change (outcome) arises from what you did – the intervention.

These definitions are paraphrased from the European Commission's GECES 'standards' at <https://op.europa.eu/en/publication-detail/-/publication/0c0b5d38-4ac8-43d1-a7af-32f7b6fcf1cc>

Why does impact matter?

We need to be clear about whether our energy and resources are being well spent. Are we getting results and are they valuable ?

Impact is about:

- What we do
- Whom we reach
- Whether and the extent to which we meet need
- How lasting is the effect we achieve

What is Impact Maturity?

It is about where we are on a journey of understanding and being driven by the impact we create.

The further we are on that journey, the more effectively we focus and the more effectively and efficiently we deliver...in a way that is sustainable in the medium and long term

We see four levels of Impact Maturity – the REAL ©model

Recognising - identifying it and considering its effects

Exploring - developing and documenting a strategy for creating it; impact appears at every level of activity and operations, although not necessarily in an integrated way yet

Aligning - with impact targeting fully factored into strategy, into supply chain, and into risk appetite; negatives are identified and tackled

Leading by the agenda - IM strategy is informed by active feedback and measurement; resource allocation is determined based on ability to create impact; individual business units align to common impact priorities

Recognising impact

Exploring impact

Aligning for impact

Leading the agenda



Impact in Delivery and Leadership

There are three ways of making impact happen

1. **Direct delivery**
2. **Leading others to do likewise and showing them how**
3. **Influencing change that has a positive impact effect**

Participants considered which they do ..some, or all, and how?



Planning for impact recognises we can use those three methods, but works out which to use and how to make the impact most effective, long-lasting, and delivered most efficiently

We focus on

1. For whom the change (outcome) is needed
2. Their situation and how that created or exacerbates their need
3. What change is needed – to affect their situation, or to alleviate their need
4. How can we deliver that change – thinking not just about what we do, but how we do it (the "approach")
5. Is this the best way of doing it
6. How we perpetuate the effect (either by making it a permanent change, or by creating continual delivery)

That then informs business and operational planning

..and control systems, resourcing and the rest.....and indeed informs monitoring of resource use, delivery, and impact.

Internal accounting and measuring impact

Start with the basics of arithmetic measures:

- Number of beneficiaries worked with
- Number of professionals engaged
- Number of supporters reached and engaged through monetary and action/campaigning

Shift to value/ impact of interaction – subjective and objective measures

- Measurement of quality of delivery
- Satisfaction ratings / recommendations
- Behaviour changes

Reach

- Impact on wider community other than those directly benefiting
- Local – national – society

Working with partners and why impact (internal) reporting is key to this

Building from above and taking 'partners' in widest sense:

- Need for evaluation – independent assessment
- Commissioners seeing benefit which may impact on community cohesion / savings on budgets possible but sometimes blinkered if not directly benefitting their budget
- Philanthropists realizing social value for their investment
- Learning to be shared to benefit wider cohort of beneficiaries

For effective delivery through leadership to consider the legal and practical structures though which that happens

- Informal influence, building on credibility of position with information and focus and a compelling arguments for change – together with clear and repeated communication
- Management agreement or other contractual guidance and control
- Joint venture or SPV

Using reporting for influence

It is important to understand what change is needed, as well as how to influence to make it happen

What is needed by changes in:

- The situation of the beneficiary – the systems and communities around them, or the resources available to them
- The support that is delivered for those that need it – either what is delivered or how



The understanding we need is of

- Who needs to do what to effect the necessary change
- What will enable that change to happen and what might be blocking it
- How each element of the change will affect those involved (as change agents and as beneficiaries)

Influencing others to make changes happen requires us to map and grasp

- ...clearly what change is needed
- What response is needed from the change agent to make that happen
- In what value frame they are working – what matters to them, and hence the messaging that will resonate with them, and get them to act
- The value exchange that will ensure that they act as needed – what will make them feel it's worth acting?

Upgrading financial reporting

Considering what can be done to use financial and other reporting to embrace impact when considering our influence on others

How can influence and trust interact?

- We have seen that public trust and confidence in charities has been a waning Charity Commission measure over a number of years. There is in effect a PPP crisis for charities – the lack of understanding expressed by Politicians; Press; and Public. For example comments regarding “fat cat” CEOs.
- Impact accountability has the ability to create trust

- Building a trust relationship can be beneficial to both individual charities as well as the sector as a whole
- Getting charities to drive not respond to the agenda means we can promote positive messages
- This can also create a protective shield against mis-information and mis-trust though the barrier of facts and evidence concerning our impact

A strong argument exists that the truth will set us free.

“No-one reads our statutory accounts”

- Many charities express the view that few read their financial and other reports. This has the understandable result that adopting a compliance approach is attractive.
- Financial statements compilers recognise that the SORP reporting of impact is discretionary
- Only Public benefit reporting is mandatory, but is often quite boilerplate
- There is an opportunity to recognise the difference between Accountability to the public Versus Public Accountability
- Reporting can be mindful of potential stakeholders- beneficiaries, staff, supply chain, other charities, funders, social investment managers

Maybe few are readers of charity reports because we don't make our narrative reporting accessible and relevant.

CFO at the heart of the engine for change – a unique perspective

- Charity finance professionals have the opportunity to influence and engage with other senior charity leaders within their organisations
- An important role to promote cultural change by highlighting the benefits of measurement in both internal and external reporting

Comply, disclose and explain – a model that works... eventually

- Using impact as a way of influencing long term change. This comply, disclose and explain governance model is well established and uses disclosure as a means of encouraging change and compliance with appropriate practices. And it does work.
- E.g. Risk Management of significant risks is a well-established disclosure in trustees annual reports. It was first established by the 200 version of the Charities SORP, when risk management methodologies in charities were often very informal. Has this resulted in us all having “perfect” risk management systems? Maybe not, but there is undeniable improvement in our systems and processes.

Evidence- based campaigning and lobbying

- Influencing those with power to create societal change. Adopting reporting that provides evidence of what works is supported by the guidance in the Charity SORP. In the structure for narrative reporting in the trustees annual report there is a golden thread which links: Objects – Vision – Strategy – Operations – Activities – Outcomes – Impact (SORP Paras 1.11 and 1.12) Link to Liz and Scrutiny
- Charities are using this as a tool to influence for those changes enabling them to speak truth to power.

Accountability and Engagement for impact and what that means

Statutory reporting and the need to enhance it to recognize wider stakeholder interests

Where are we with charity statutory financial reporting?

- The Charity SORP consultation process has been ongoing for the last two years but is behind their original schedule
- However, the SORP -Making Body's statement of draft aims and principles –was issued in January 2022 and provides an indication of some of the likely content of the revised SORP.
- First Aim: "Address that needs of main users" – defined as funders and beneficiaries
- Principle 4: Narrative reporting to reflect the needs to main users.

This suggests that there will be an increased requirement for narrative reporting.

Should we also be mindful of international financial reporting developments?

The consultation on International Financial Reporting for Non Profit Organisations (IFR4NPO) is a major initiative to develop global standards for non profit financial reporting. It is therefore important that charities are informed what its implications might be as the first of three exposure drafts of the guidance is expected in Quarter 4 of 2022. Narrative reporting will be key element of this.

After 20+ years are we getting anywhere?

- The TAP model of accountability is helpful for us to consider. It is clear that transparency is not enough – being clear, accessible and timely information.
- Accountability to stakeholders is important – such as the provision of information versus data so that organisations can be held accountable. Also participation in reporting means seeking stakeholders views and using that for charity decision-making.
- Does it seem that charities are now grasping this new language of impact accountability? There are positive signs that increasingly charities are understanding some of the key concepts or are on a journey to do so.

Auditor role to review "other" information – Trustees' Report – is this a concern?

- Concerns have been expressed regarding the implications of increased narrative reporting and making impact assessment reporting mandatory and the impact that could have on audit work. It is worth a reminder the auditors are responsible for ensuring that the content of trustees' annual reports and narrative reporting accompany accounts is compliant and consistency with financial information.
- It is fair to recognise that this could be a challenge. This is illustrated in recent regulatory guidance to auditors regarding their consideration of "alternative performance measures" which are increasingly used by public interest entities. FRC Annual Review of Corporate Reporting 2021 noted this as an area where auditors must take care.
- However if charities report in a manner that is fair, balanced, giving prominence to both successes and failures, and in an evidenced manner, difficulties are unlikely to be significant. This does though require auditors that understand these concepts of charity reporting.

Scrutinising impact – by Executives and Trustees

The Golden Thread is the mission and strategy

The Children's Society experience:

- Journey to improve visibility and transparency
- It is not a one off / single year ambition or achievement
- History of publishing impact report but new strategy and focus
- Voice of the organisation including young people and young trustees
- Recognition of need to shift impact reporting
- Working group including trustees
- End goal
- Impact framework and performance management
- Theory of change
- Agreeing a language which helps to explore impact
- All on the journey with briefings and where appropriate sign offs
- Accept it is still in development – we are learning
- Will be combining impact and annual report

Workshop feedback

Here are some of the observations and areas of feedback arising from the breakout group discussions:

- We are all at an early stage of impact journey. We can help each other in developing the Impact Maturity we need.
- Impact over time is important, but need to be clear on what to measure.
- We should involve beneficiaries more to explore and measure our impact.
- Daring to do things in a different way and leading us in a new direction requires us to be a bit brave!
- We accept that this does not always work perfectly, and need to recognise where change is needed and embrace it.
- It is important to be clear why you have chosen an impact you seek to deliver and measure. If something different will happen if it is known, it may be worth measuring.
- Must be clear about what data is needed to demonstrate what we're trying to measure and what matters.
- Identifying what is important to prioritise can be difficult – for example focused on speed of response and efficiency may have great priority.
- Using stories and providing more information in our annual report to try to make a connection between the financial numbers and the difference we make to our beneficiaries.
- Need to be more explicit in articulating our outcomes and what we've done to make it happen.
- Long term vision may need breaking down into milestone goals, recognising that some measurements are subjective.
- Benefit may be hard to measure if it arises in the longer term – need to consider how to measure it by proxy. If the full outcome arises in the medium or longer term we may be able to use milestone measures instead.
- Can be a power imbalance between funder and delivery organisation and beneficiary, and between different delivery organisations in the collective impact supply chain, which must be addressed to get good measurement.
- Don't assume that one rule/ measurement for all is appropriate.

Further action

For more information and guidance on this topic please contact the workshop leaders:

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