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Public Benefit Reporting by Charities

REPORT OF A STUDY UNDERTAKEN BY
SHEFFIELD HALLAM UNIVERSITY ON BEHALF OF THE CHARITY
COMMISSION FOR ENGLAND AND WALES

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Abbreviations and short terms used

1993 Act	The Charities Act 1993 – <i>applicable to charities in E&W (all references are to the Act as amended from time to time, including amendments by the 2006 Act where relevant)</i>
2006 Act	The Charities Act 2006 – <i>applicable to charities in E&W</i>
2008 Regulations	The Charities (Accounts and Reports) Regulations 2008 (SI 2008/629).
Accruals basis	Accounts where the figures show accrued income (the income earned by the charity over the period) and accrued expenditure (the costs incurred by the charity) – such accounts must normally be presented to comply with <i>SORP</i> . (As opposed to <i>R&P accounts</i> .)
AR&A	Annual Report and Accounts (i.e. the TAR and the Annual Accounts – these are normally filed together as a single document).
CC	Charity Commission (for England and Wales)
CEO	Chief Executive Officer (of a charity)
E&W	England and Wales
IE	Independent examiner
OSCR	Office of the Scottish Charity Regulator
PB	Public Benefit
PB1	<i>Charities and Public Benefit: The Charity Commission’s General Guidance on the Public Benefit Requirement</i>
PBR	Public Benefit Reporting
PDF	Portable Document Format (the electronic format used for AR&As on the Charity Commission’s web site)
R&P	Accounts prepared on the receipts and payments basis (<i>recording simply money received and paid out</i>)
SHU	Sheffield Hallam University
SORP	<i>Statement of Recommended Practice on Accounting and Reporting by Charities</i>
TAR	Trustees’ Annual Report
£K	£1,000
£M	£1,000,000

Foreword by the Charity Commission

Dear Reader,

Charities occupy a special place in our society. They provide support to some of the most vulnerable members of our communities, campaign for a variety of causes, and promote altruism and voluntarism in many different ways. Because of this, they inspire trust in both their supporters and the public.

This trust stems from the fact that charities operate for the benefit of all of us and not in the interests of private groups or individuals. This was re-emphasised by the Charities Act 2006, which highlighted the requirement for all charities' aims to be demonstrably for the public benefit. In 2008, a new regulation was introduced which requires charity trustees to have regard to the Charity Commission's guidance on public benefit. They must also provide an account in their Trustees' Annual Report of how their organisation has furthered its aims for the public benefit.

This research explored the extent to which charities have successfully got to grips with the new reporting requirement. Many charities, particularly the larger ones, have made good progress and clearly describe their charitable aims and whom they exist to serve. On the other hand, the research found that many charities could be more explicit about how their work has a positive impact on their beneficiaries. Inevitably, smaller charities may need more time and support fully to meet the requirements.

We are particularly pleased with the research finding that many of the trustees involved felt that the public benefit reporting requirement was not particularly burdensome or time consuming. Indeed, some trustees used the reporting process as a way to re-focus on their core mission and aims. On this basis, we encourage trustees to take full ownership of public benefit reporting. It is not only an opportunity for trustees to demonstrate accountability to their funders, supporters and to the wider public, but also enables them to 'tell the story' of their charity's work and its impact.

The Charity Commission has conducted previous research into charities' awareness and understanding of the public benefit requirement. We have also carried out a wide range of public benefit assessments. The time is right to review our public benefit guidance, a process which will begin later in the year. This research will help us as we further improve our guidance and continue to support charity trustees with public benefit reporting.

Finally, we would like to thank Sheffield Hallam University for producing this authoritative and fascinating research report.

Dame Suzi Leather - Chair
Sam Younger - Chief Executive

Executive Summary

This is a report of a study of public benefit reporting (PBR) by registered charities in England and Wales. It was conducted on behalf of the Charity Commission by an independent team based at Sheffield Hallam University.

WHAT IS MEANT BY PUBLIC BENEFIT REPORTING?

Every registered charity, regardless of income, is required to publish accounts each year which must be accompanied by a Trustees' Annual Report (TAR). The term 'public benefit reporting' refers to two requirements: (i) every TAR should explain the activities undertaken by the charity to further its purposes for public benefit, and (ii) the TAR must state whether the trustees have considered the Charity Commission's guidance on public benefit.

TIMING OF THE PBR REQUIREMENT AND THE RESEARCH

The aims of the study were to assess how far charity trustees were reporting on public benefit in their TARs and to look at the practical issues for charities in complying with this requirement. The timing of the research meant that in most cases we were looking at the first year of PBR for the charities concerned.

The PBR requirement took effect from financial years beginning on or after 1 April 2008. Allowing 10 months after year end for the TAR and accounts to be completed, by January 2011 every registered charity should have published at least one TAR including PBR, and a number of charities had actually completed two.

PHASE 1 OF THE RESEARCH – DESK-BASED REVIEW OF TARs

In the first phase of the study, a detailed review of the TAR was undertaken for 1402 registered charities. In 140 cases a second year's TAR for the same charity was considered. The charities in the study were selected in four bands: those under £25,000 income (which do not have to file their TAR and accounts with the Charity Commission – so we contacted charities directly to ask for them); two bands where the TAR and accounts have to be filed with the Commission but where the accounts are usually eligible for independent examination (£25,000 - £100,000 and £100,000 to £500,000 income) and charities over £500,000 income for which an audit is compulsory.

All findings are based on a sample of registered charities which had filed accounts with the Commission for a financial year since the PBR requirement took effect or (in the case of those under £25,000 income) which responded to our postal request for a copy of their latest annual report and accounts.

The TARs were assessed against a range of variables. In particular, our analysis explored five key elements of PBR, looking at the extent to which the TAR had:

- included a statement of the charity's aims;
- included a statement that the trustees had 'had regard' to the Charity Commission's guidance on public benefit;
- demonstrated a clear understanding of who the charity's beneficiaries were;
- described the activities undertaken in furtherance of the aims; and
- provided a clear explanation as to how the charity's activities led to benefit for the beneficiaries.

We looked, too, at whether trustees had chosen to go beyond the minimum requirements in the Charities (Accounts and Reports) Regulations 2008 in order to address specific issues arising from the sub-principles in the Commission's guidance – for example any discussion of harm or detriment, restrictions, or private benefit. We also considered whether additional requirements in the 2008 Regulations for charities above the audit threshold has been met.

The TARs were also given a score on a 0-5 scale on how successfully they met the PBR requirement overall.

PHASE 2 OF THE RESEARCH – FOCUS GROUPS AND INTERVIEWS

In a second phase, some of those charities which appeared to have made reasonable progress in addressing the PBR requirement were invited to discuss the process in focus groups and telephone interviews (though only around half of those invited were judged to have met *all* the requirements in their latest TAR). Trustees (or in some cases senior members of staff) from 30 charities shared their experiences of preparing TARs which discussed public benefit issues.

PRINCIPAL FINDINGS – ADDRESSING THE PBR REQUIREMENT IN FULL

- The study found that the overall level of compliance with the PBR requirement is, at this stage, variable. For charities over the audit threshold, 26% had prepared TARs which clearly covered both of the essential PBR requirements in the 2008 Regulations. For smaller charities the proportion which had clearly met both requirements was: 10% in the £100,000 to £500,000 income band, 2% in the £25,000 to £100,000 band, and also 2% amongst those with less than £25,000 income who responded to our request.
- A number of charities almost met both requirements in the 2008 Regulations, but lacked some clarity or completeness in the explanations – for example in describing how their activities led to public benefit. If these charities are included, we can say that the proportion which either fully met the requirements or 'came

close' to doing so¹ was 67% of those over £500,000 income, 36% of those in the £100,000 to £500,000 band, 15% of those between £25,000 and £100,000, and 13% of those under £25,000.

- However, where charities appeared to have properly understood the requirement, we found some excellent cases of PBR from charities at various levels of income (some examples appear in section 5).

FINDINGS IN RELATION TO SPECIFIC ELEMENTS OF PBR

- The requirement for a TAR to include a statement of the charity's aims long pre-dates PBR, but without this it is very difficult for a TAR to address the specifics of PBR. We found a clear statement of the charitable aims (typically a statement of "purposes" or "objects" from the governing document) was provided by 89% of those over £500,000 income, 80% of those in the £100,000 to £500,000 band, 56% of those between £25,000 and £100,000 income, and 41% of those under £25,000.
- The extent to which trustees had in fact 'had regard' to the Charity Commission's guidance on the public benefit requirement, varied enormously. The Charities Act 2006 requires trustees to have regard to the guidance – this is applicable to trustees of all charities in England and Wales – and under the 2008 Regulations, a statement is required in the TAR of every registered charity to say whether they have done so. For those above the audit threshold, we found 72% of charities had a clear statement of this kind. A statement was provided by 42% in the £100,000 to £500,000 income band, by 22% in the £25,000 to £100,000 band, and by just 11% of those in our sample under £25,000 income.
- On the issue of how far the TAR explained the activities undertaken by the charity to further its purposes for public benefit, we considered a number of elements, as explained above. Even where charities had not addressed *all* the legal requirements of PBR, results for individual elements were stronger. For example, the proportion which had provided TARs with an explanation of the charity's activities expressed in terms which had a clear link to their beneficiaries was: 74% of those over £500,000 income, 60% of those in the £100,000 to £500,000 band, 36% of those in the £25,000 to £100,000 and, and 22% of those under £25,000.

IMPACT OF PBR – QUALITATIVE FINDINGS

- We found in our qualitative work that PBR is not, for the most part, an onerous requirement. Addressing public benefit issues in the TAR is rarely a cause of significant extra work. For many charities, explaining the link between their aims, beneficiaries, activities, and benefits provided was something they were keen to do in any case. Several charities actually told us that they found the whole PBR

¹ I.e. Those which achieved a score of at least 3 on the 0-5 score for overall TAR quality – see section 3.12 for further details.

process valuable in helping trustees re-focus on the core aims of the charity. Whilst we found some trustees who were concerned about increasing regulation of the sector, most said that PBR was fairly low on their issues of concern.

- However, the focus groups and interviews also found a few charities whose trustees perceived public benefit as an issue of ‘high concern’ – in some cases they felt exposed on meeting the public benefit requirement in the Charities Act 2006. A number of these devoted enormous effort to PBR, especially in the first year when it applied. But for some the main concern on PBR was simply ‘not to stand out’ compared to other charities.
- Even where statements were included in the TAR regarding consideration of the Commission’s guidance on public benefit, the focus groups and interviews found a number of cases where someone preparing the TAR (such as a member of staff or an external accountant) had included this statement in the TAR but where trustees had little understanding of what it meant. In other cases, the trustees had a vague awareness that someone had looked into the guidance on their behalf. We also found some larger charities where staff felt that the charity’s work was not controversial in public benefit terms, and had not therefore felt it necessary to brief the trustees in detail.

BROADER FINDINGS REGARDING THE TAR IN GENERAL

- Across registered charities as a whole, there appeared to be confusion on the importance of the TAR. Even though the study only looked at registered charities which had produced accounts for a year since the PBR requirement took effect (so we did not consider charities which had omitted to file accounts) we found a wide range of charities with no TAR at all. TARs were omitted by 29% of those under £25,000 income, 12% of those in the £25,000 to £100,000 band, and 4% of those between £100,000 and £500,000. It was only in the charities over £500,000 income that a TAR was universally included.
- Many more had submitted what were only draft documents with no evidence of approval by the trustees – overall, only 53% of our sample² had a properly approved TAR. Even in the focus groups and interviews with charities which had been reasonably successful in terms of PBR, we found a number of trustees who saw the TAR purely as ‘a few statutory pages on the front of their accounts’. We found several cases where charities had given much more effort to a non-statutory ‘Annual Review’ than they had to their formal Trustees’ Report.

² Please note that our sample is not a random sample across registered charities as a whole – larger charities are included proportionately more often than small ones. See sections 1.4 and A.1 for details.

UNDERSTANDING AND LEARNING OF PBR

- **Both the TARs we analysed and the comments of trustees and staff we met indicated that more awareness was needed of what is actually required in a TAR to address the PBR requirement. The participants with the greatest appreciation of the two PBR requirements tended to be trustees who were also professionals acting for a number of charities or staff with extensive charity sector experience.**
- **The Commission's main guidance on the public benefit requirement (PB1) includes a section at the end on public benefit reporting, but we did not get a sense that many charities were aware of this. Some participants had made use of the Commission's example TARs, but this was largely restricted to the more advanced practitioners who regularly look at the Commission's website.**

1. Introduction and Aims of the Study

1.1 Background

The Charities Act 2006 re-emphasised the legal requirement that every organisation set up for one or more charitable aims must be able to demonstrate that its aims are for the **public benefit** if it is to be recognised as a charity in England and Wales. In particular, it removed the “presumption” of public benefit which previously applied to many charities³.

In furtherance of this new objective, the Act directed that the Commission should publish guidance on public benefit and explicitly require charity trustees to have regard to this guidance⁴. The central guidance document *Charities and Public Benefit: The Charity Commission’s General Guidance on the Public Benefit Requirement*⁵ was issued in January 2008, following a formal consultation. More detailed guidance was subsequently issued (also following formal consultations) for charities operating in particular fields, together with supporting legal analysis for all the guidance⁶.

The Charities Act 1993 has long required all charities in England and Wales (E&W) to prepare Annual Accounts each year, and in the case of registered charities, the accounts must be accompanied by a Trustees’ Annual Report (TAR)⁷. The TAR gives certain factual information and explains the work undertaken by the charity. Requirements for TARs are set out in statutory instruments, the latest version being the Charities (Accounts and Reports) Regulations 2008⁸.

1.2 Public Benefit Reporting

Following on from the public benefit provisions in the 2006 Act, the 2008 Regulations provided that all registered charities must ensure that their TAR, for financial years starting on or after 1 April 2008, includes:

- (i) **a report of those activities undertaken by a charity to further its charitable purposes for the public benefit; and**

³ Charities Act 2006, s.3(2).

⁴ Charities Act 2006, s.4.

⁵ Charity Commission publication reference PB1.

⁶ All the guidance is available at www.charity-commission.gov.uk/charity_requirements_guidance/charity_essentials/public_benefit

⁷ Charities Act 1993, ss.42 & 45.

⁸ SI 2008/629. Part 5 of the 2008 Regulations deals with TARs.

- (ii) **a statement by the charity trustees as to whether they have complied with the duty in section 4 of the Charities Act 2006 to have due regard to public benefit guidance published by the Commission.**

We refer to these two requirements together as the “public benefit reporting” (PBR) requirement.

1.3 The Research Aims

This report sets out the main results of a study undertaken at Sheffield Hallam University, on behalf of the Commission, in the period October 2010 - April 2011. We looked at how far charities are fulfilling the PBR requirement and any practical issues they have faced in doing so. The research had two main aims:

- (a) **to assess the extent to which trustees have fulfilled their duties of public benefit reporting and**
(b) **to explore the quality of their public benefit reporting.**

It should be noted that the study was **not** in any way seeking to assess whether or not charities in the study met the public benefit requirement – we were simply exploring the issue of public benefit **reporting**.⁹

More specifically, the Commission indicated that the study should:

- provide evidence of the extent to which charities have ‘got to grips with’ the reporting requirement;
- highlight good practice, and act as a mechanism for encouraging good practice amongst those charities who have yet to address the PBR requirements;
- further develop the Charity Commission’s guidance, out-reach work and communication in relation to public benefit reporting; and
- be one of a range of tools that feeds into the 2011 review of the Charities Act 2006.

In order to address these aims it was agreed to conduct the research in two phases. The research processes are explained in Appendices A and B – but in outline, the approach was as follows.

Whilst the focus of the study was on the PBR requirement, it is impossible to separate public benefit reporting from the broader issues involved in preparing a TAR for a charity: some aspects of the research therefore touch on broader issues of compliance and preparation in relation to trustees’ annual reports.

⁹ For more on this distinction see section G7 in the Commission’s PB1 document.

1.4 The Research Design – Desk-Based Study

Phase 1 of the research comprised a desk review of the TARs of a substantial sample of registered charities. In total **1402** charities were included in the review, and for 140 of these a second year's TAR was examined to see if there were any major changes in PBR from one year to another, so in total **1542** charity TARs were reviewed¹⁰.

There were 151,929 main charities on the Charity Commission register at the commencement of the study, so by reviewing 1402 of these almost 1% of registered charities were considered.

The charities for phase 1 were based on a random sample of registered charities within four income bands. In the case of bands (a) to (c) charities were only considered if they had filed accounts with the Commission for a year that started on or after 1 April 2008 when the PBR requirement took effect. In the case of band (d), most of charities were contacted individually to request their TAR and Accounts by post – it was felt important to include registered charities under £25,000 income in the study as they must still produce a TAR and Annual Accounts, and the TAR is still subject to the PBR requirement, even though they do not normally have to submit their TAR and Accounts to the Commission. (See Appendix A for further details of the selection criteria.)

Charity Income Band	Actual number of registered charities in the study within each income band	Charities studied as a percentage of all registered charities in the band
(a) Over £500,000	398	4.2%
(b) £100,000 - £500,000	395	2.3%
(c) £25,000 - £100,000	398	1.5%
(d) £5,000 - £25,000	211	0.2%
Totals	1402	0.9%

The review of these was undertaken by a specially trained team of eight research associates (RAs) who used a detailed framework to consider how far the TARs met various elements within the essential requirements of PBR. Although some of the review criteria involved a subjective assessment, a number of procedures were put in place to maintain consistency of results between the RAs.

For each of the selected charities, the Annual Report and Accounts (AR&A) was analysed using a systematic framework, with a total of 26 variables recorded for each charity. Most of the analysis was based on the TAR, but we also recorded some information from the Annual Accounts – for example the format of accounts (receipts

¹⁰ Not all charities in England and Wales are required to be registered with the Charity Commission, but all are subject to the public benefit requirement in the 2006 Act. However, exempt and excepted charities are not required to produce a TAR under s.45 of the 1993 Act and hence are not subject to the public benefit reporting requirement. So this study was limited to registered charities.

and payments basis or SORP format) and whether the accounts had been audited or independently examined.

In many cases it is impossible to give a simple yes or no answer as to whether or not a charity has met its obligations under PBR. So, many of the criteria were assessed on a qualitative 0-4 scale, where a 4 indicated that the TAR appeared fully to meet the legal requirements on the issues being assessed, and 0 indicated that the TAR contained nothing towards the point being assessed. Scores of 3, 2, or 1 indicated some attempt being made towards compliance. All assessments were made in relation to the central principles of public benefit reporting, as set out in section 2 of this report. See Appendix A for details of the assessment framework.

A further element within phase 1 was to consider whether PBR was changing from year to year as charities became more familiar with the requirements. We also wished to compare TARs from before the PBR requirement took effect, to see if the new duties were leading to major changes in TARs. For 140 charities in the study a second year's TAR was considered.

The quantifiable results of the phase 1 assessments were tabulated and the main findings are presented in section 3 (with full details of results in Appendices C and D).

1.5 The Research Design: Focus Groups and Telephone Interviews

Phase 2 of the study was designed to move away from the written documents and to ask charities directly how they had coped in practice with public benefit reporting. A total of 166 charities were selected from phase 1 which appeared to have dealt reasonably well with the PBR requirement. They were contacted with an invitation for a suitable trustee (or a member of staff if more appropriate) to attend a focus group discussion, with representatives from other charities.

Four focus groups were held in different regions, and these were supplemented with a number of telephone interviews. All the focus groups and telephone interviews were facilitated directly by the project leaders, and the participants were thus able to converse directly with researchers who had experience in charity accounting and reporting.

In total, 30 charities participated in the phase 2 groups and telephone interviews – in some cases more than one trustee attended (or a member of staff and a trustee) so views were gained from 33 separate individuals. It should be noted that this was not a random selection of charities – we felt there was little to be gained from speaking to those whose TARs hardly addressed PBR at all. The invitations were thus based on charities which had already achieved some progress in PBR, and within that, those who accepted the invitation were naturally from charities or individuals having some interest in the issue. (Please refer to Appendix B for details of the research design for this phase, and the discussion questions used.)

The notes from the focus groups and telephone interviews were used in a detailed process of content analysis. A summary of the participants in phase 2 and details of the main findings are presented in section 4 of this report (and further information on participants is given in Appendix B).

2. What is Meant by Public Benefit Reporting?

2.1 Introduction

This research is concerned with how effectively public benefit issues are dealt with in Trustees' Annual Reports (TARs). Our primary task in phase 1 was to consider how far charities are meeting their legal obligations on public benefit reporting (PBR) in TARs.

The law requires that, for financial years which began on or after 1 April 2008, a charity's TAR must include:

- (i) **a report of the activities undertaken by a charity to further its charitable purposes for the public benefit;** and
- (ii) **a statement by the charity trustees as to whether they have considered (or "had regard to") the Charity Commission's guidance on public benefit.**

This is a summary – Appendix E of this report gives the exact Regulations.

In order to assess TARs against these requirements it was necessary to establish what is needed in practice, especially on requirement (i). We drew up a framework which was discussed with the Commission, seeking at all times to ensure we were not expecting charities to do any more than the law requires. The basis of our approach is set out below – please see Appendix A for the detailed research framework used to assess this and references to the specific regulations for each point.

The principles set out in this section may be helpful to charities seeking to ensure that TARs meet the legal requirements on PBR. However, it must be stressed that TARs are required to include many other issues¹¹ – PBR is only one element in ensuring that a TAR complies with the law.

Our research was at all stages focused on the *Trustees' Annual Report* which charities are required by law to prepare and to file alongside their Annual Accounts. (A number of charities also publish a more informal report on their activities – often called an *Annual Review* – but as the PBR requirements relate to the TAR, this research was only concerned with statutory reporting in TARs.)

¹¹ The full requirements for TARs are set out in Part 5 of the Charities (Accounts and Reports) Regulations 2008.

2.2 Provision of a Statement of the Charity's Aims

It has long been a requirement for charity TARs to include a **statement of the charity's aims** – usually expressed in terms of the “**purpose**” or “**objects**”. So this is not a new requirement linked to PBR.

Often, the aims are given in a section at the start of the TAR with legal and administrative information, though it may be part of the main narrative. It should normally be taken directly from the charity's governing document, although the Regulations permit “a summary description of charitable purposes of the charity” if the full wording is too difficult to include.

The whole focus of public benefit reporting is on explaining the activities carried out in furtherance of the charity's aims, and on the extent to which the trustees considered the Commission's guidance in deciding how the aims should be carried out.

Hence, before assessing how far a TAR addressed requirements (i) and (ii) above, we considered whether the TAR included a clear statement of the charity's aims.

2.3 Assessing the Statement on Compliance with Commission Guidance

Requirement (ii) of PBR is not especially difficult to assess – in most cases we were able to review a TAR and conclude either:

- Yes – the trustees say they have had regard to the Charity Commission's Guidance on Public Benefit or
- No – the trustees do not make any explicit reference to the Charity Commission's Guidance on Public Benefit.

As indicated in the findings in section 3, many charities omitted to include a statement on these lines in the TAR and the charity thus failed to address PBR requirement (ii). (However there were also a few ambiguous cases and our framework allowed for this.)

2.4 Assessing the Report on Activities Undertaken for the Public Benefit

Requirement (i) is much more challenging. The TAR may talk about the work of the charity without using the words “Public Benefit” but if it clearly explains how the charity carries out its aims, who has benefited (or had the opportunity to benefit), and how the benefit from the activities has arisen, then the charity will have met requirement (i).

So, a TAR that is properly prepared under the regulations should include all three of the following elements if it is to meet the requirement of providing “**a report of the**

activities undertaken by a charity to further its charitable purposes for the public benefit”.

- (a) **An understanding of who are the charity’s beneficiaries.** This does not have to be stated explicitly but the TAR should always show some awareness in the language used to indicate that the trustees are thinking about the beneficiaries when they describe the activities.

In some cases the beneficiaries may be clear from the charity’s aims in a statement such as “the charity is established to help people in the following categories ...” If so, no further explanation is needed, provided the activities clearly link to the beneficiaries indicated.

Where the beneficiaries extend to the whole public (or at least the public in a certain area) the TAR may not mention beneficiaries explicitly. But there should be something to show that any activities offered are readily accessible to the public – phrases such as the following show a clear understanding of beneficiaries:

- “... the charity operates a museum which is open to the public”
- “... the charity runs a park which is open to all members of the community”

A charity does not have to work directly with its beneficiaries – but the TAR should show an awareness of how the public benefits. For example:

- A grant-making charity which only makes grants to other charities may have no direct contact with the people who benefit from the grants, but the TAR should explain how grants are made to organisations which can support or assist the beneficiaries.
- A charity may provide training for a certain profession (e.g. doctors) but the beneficiaries are not the doctors themselves but members of the public who will benefit from better medical care as a result of the training.
- A charity may work with offenders to help them avoid re-offending. The beneficiaries are not just the offenders themselves, but also members of the public who will benefit from less criminal activity in the area.

For charities not working directly with their beneficiaries, the TAR may say little about the beneficiaries if the trustees feel this is obvious. In such cases, we assessed this aspect of the PBR requirement in terms of whether or not

the trustees appear to be considering who are the beneficiaries (as judged from the ways in which they describe the charity's work).

The beneficiaries do not have to be in the same area as the charity or even in the UK. Many charities in England and Wales raise funds to support activities in other countries. For example, if a charity raises funds for the purpose of relieving poverty in Africa, all discussion of the benefits of the charity should relate to people in the communities in Africa where the charity works.

(b) **An explanation of the main activities undertaken by the charity to further its aims for the public benefit.**

There is no requirement to use the term "public benefit" in describing the activities, though if this term is used it is helpful in showing those activities which the trustees feel are most relevant.

In reading a TAR, once the intended beneficiaries are clear (see above) it is easier to identify relevant activities because activities undertaken for the public benefit will always link in some way to the beneficiaries.

The work with the beneficiaries does not have to be carried out directly by the charity concerned. Some charities run projects directly – others work mainly by making grants to third parties (organisations or individuals). The activity of grant-making is a clear means of fulfilling the public benefit requirement, so long as grants are made which will ultimately benefit the charity's intended beneficiaries.

However, TARs often contain explanations of many other activities which are *not* related in any way to the beneficiaries. Such activities *do not* count as public benefit reporting. These include:

- *fundraising activities*: fundraising may be important to the future work of the charity, but raising funds does not in itself do anything directly to advance the charity's aims
- *internal activities* such as trustees meetings, staff meetings, issues to do with the internal organisation of the charity; etc.

Some activities may or may not be part of public benefit reporting, depending on the nature of the charity's work – for example, activities designed to publicise the charity's work (PR work):

- in some charities, PR will be mainly about promoting the charity's profile to potential donors in order to help raise funds
- but in a charity whose objects are concerned with providing advice or information, PR may be directly providing information to reach

beneficiaries – or to reach others whose actions may affect the beneficiaries. In these cases, the PR work would count as an activity undertaken for the public benefit.

If a TAR describes numerous different projects undertaken by the charity or numerous different areas of grant-making, there is no requirement for a separate PBR discussion in relation to each area, so long as there is an overall discussion of how the activities further the aims for public benefit. Similarly, where a charity had very broad aims, the assessment simply looked for explanation of activities which advanced the aims for public benefit – we did not seek to assess whether every aspect of the aims was covered.

(c) **Explanation of how the charity’s activities lead to benefit for the beneficiaries.**

For many charities this is obvious and in such cases we took the view that this aspect of the PBR requirement is met without the linkage being stated explicitly. But if the linkage between the activities and the beneficiaries is not self-evident to a reader unfamiliar with the charity there should be some explanation in order to be confident that the TAR has explained the charity’s activities in terms of public benefit. In all cases such explanations should link to the charity’s aims.

For example:

- a conservation charity may need to explain *how* the public will benefit from the buildings or artefacts it is conserving (e.g. educational benefits, provision of recreation facilities)
- a publishing charity may need to explain *how* the public will benefit from the books and other resources it published (e.g. educational benefit, health benefits, religious benefits)
- a charity working with people who are not within a section of the public that benefits from the charity’s work – such as those mentioned in (b) above – may need to explain *how* the public will benefit (e.g. less offending, better healthcare).

The benefit *does not have to be measurable* in any financial sense. But to address PBR requirement (i) the charity must be able to explain how its work serves the beneficiaries and the benefit must be linked to the charity’s aims.

For example:

- if an arts charity describes how it enables people to experience art which they would otherwise be unable to experience this is part of explaining how its activities are undertaken for the public benefit
- if a religious charity indicates that it provides teaching about a religious faith, or opportunities for public worship, and those opportunities are offered to the public (at least in that area) such comments are part of explaining how its activities are advancing religion for the public benefit.

However, TARs often mention benefits unrelated to the aims, or benefits to persons other than the beneficiaries – such comments may be of broader value to readers of the TAR but they do not contribute to PBR.

2.5 Assessing the Additional Requirements for Auditable Charities

The points above apply to all registered charities, but the 2008 Regulations (see Appendix E) require more detail in public benefit reporting for auditable charities.

An **auditable charity** is defined by the Regulations as a charity where there is a statutory requirement for the accounts to be audited (not just independently examined). This applies to all charities over £500,000 income for the year concerned¹².

For an auditable charity, the description in the TAR of the activities undertaken for public benefit is required to be more detailed, to take account of:

- all the *significant activities* (not just the “main activities” as required for a smaller charity)
- details of *aims and objectives set for the year and achievement against those aims* – for example there should be some measure of the results of the charity’s work (typically this would include information such as numbers of people reached, numbers of sessions provided, as measured against targets set – although there is no requirement to give figures if the achievements are best explained in other ways)
- details of *strategies adopted* to achieve those aims (for example, some charities may devote considerable space to plans for improving services to beneficiaries in the future).

A TAR for an auditable charity must also explain how the activities are underpinned by the contribution of volunteers, the main sources of income and should consider the key risks the charity is facing. However, whilst these issues may be mentioned in a

¹² In some cases an asset test also applies – see Appendix E.

section of the TAR discussing public benefit these comments are unlikely to address public benefit directly.

2.6 The Charity Commission's Eight Sub-Principles of Public Benefit

The Charity Commission's guidance on meeting the public benefit requirement *Charities and Public Benefit* (PB1) sets out two principles derived from case law which the Commission considers as central to public benefit.

Within these, the Commission sets out a number of specific points, one of which is further divided, giving eight sub-principles in total.

In law, trustees must *have regard* to the Commission's guidance on these principles and sub-principles, but they *do not* in law have to address them individually in a TAR. However, some TARs, especially for larger charities, may refer directly to these – doing so is strong evidence that the trustees have really had regard to the Commission guidance (rather than just saying they have).

The eight sub-principles are as follows, and as part of the study, we considered the extent to which they are addressed in TARs¹³:

1 There Must Be An Identifiable Benefit Or Benefits

- 1a It must be clear what the benefits are
- 1b The benefits must be related to the aims
- 1c Benefits must be balanced against any detriment or harm

2 Benefit Must Be To The Public Or A Section Of The Public

- 2a The beneficiaries must be appropriate to the aims
- 2b Where benefit is to a section of the public, the opportunity to benefit must not be unreasonably restricted by:
 - 2b(i) Geographical or other restrictions; or
 - 2b(ii) Ability to pay any fees charged
- 2c People in poverty must not be excluded from the opportunity to benefit
- 2d Any private benefits must be incidental.

In PB1, the Commission suggests that a TAR can address these issues effectively if it answers the questions shown in the following table.

¹³ Refer to the formal guidance (PB1) for detailed discussion of what these mean in practice.

Principle 1: There must be an identifiable benefit or benefits

1. What are the benefits that arise from your organisation's aims?
2. Is there any detriment or harm that, in your view, might arise from carrying out your organisation's aims? Are you aware of any widespread views among others that such detriment or harm might arise?

Principle 2: Benefit must be to the public, or a section of the public

3. Who do your organisation's aims intend to benefit?
4. If the benefit is to a section of the public, how are the beneficiaries defined or what restrictions are there on who can have the opportunity to benefit?
 - **For geographical restrictions:** what is the geographical area that defines who can benefit?
 - **For restrictions based on charitable need:** what is the charitable need shared by the beneficiaries that is being relieved or addressed?
 - **For restrictions based on personal characteristics:** what defining characteristics are used to decide who benefits? How do those characteristics relate to the charitable aims?
 - **For restrictions based on access to facilities:** are there restrictions on what is available for access, or on who can have access, or limited opening times?
 - **For restrictions based on eligibility for membership:** does someone have to be a member to benefit? If so, is it open to anyone interested to join? If not, who can join and how?
 - **For restrictions based on trustees' discretion:** what criteria will the trustees use to decide who can benefit? What is the justification for that restriction?
 - **For restrictions based on ability to pay any fees charged:** what does your organisation charge for its services or facilities? How are charges set? Is everyone charged the full rate? What opportunities do people who cannot afford to pay those fees have to benefit from your organisation's aims? How do people in poverty have the opportunity to benefit?
5. Does anyone receive any private benefits from your organisation, other than as a beneficiary? If so, what benefits do they receive? Are those benefits incidental?

Whilst it is not necessarily a legal requirement for TARs to address these questions directly, it is clearly helpful when they do so. For this study, we thus looked at three additional issues in the TARs beyond those mentioned above:

In relation to Principle 1:

- How far the TAR discusses any detriment or harm, which may balance against the public benefit.

In relation to Principle 2:

- How far the TAR discusses any restrictions on who can benefit (especially in relation to fees or charges)
- Where appropriate, what the TAR says about any steps taken by the charity to minimise such restrictions – e.g. offering fee assistance or other opportunities to benefit for those who cannot pay the full fees
- Whether the TAR mentions any private benefits.

See Appendix A for details of the framework used for these reviews.

3. The Evidence from Trustees' Annual Reports: How Far Are Charities Meeting the Public Benefit Reporting Requirements?

3.1 Introduction

This section of the report outlines the findings from the 1402 charities whose Annual Reports and Accounts (AR&As) were reviewed in order to assess how far they were meeting the public benefit reporting (PBR) requirement.

At the end of this section, we also report on the findings from consideration of a second year's TAR for 140 of these charities.

Sections 1 and 2 gave a summary of the selection criteria and the review process used to assess the TARs – please refer to Appendix A for full details of this.

As explained in section 1, although we considered charities of all sizes, they were selected by income bands and we did not select the same proportions in each band. So, in most cases, our results are presented separately for each income band. Where figures are given across the whole sample (including the "All" column in the tables) these are based on all 1402 charities we studied, but this is not representative of all charities on the register¹⁴. Also, our sample completely omits those charities over £25K income which have not filed an AR&A in recent years, and also omits charities up to £25K income which did not respond to our request for their AR&A.

Appendix C presents a detailed statistical tabulation of the full findings for the 1402 charities – in most cases broken down by charity income band, and in some cases by charity activity area. This section presents a summary of those findings which we feel are most relevant in directly addressing the research aims – but reference should be made to Appendix C for more detailed figures. All amounts of money relate to the gross income of the charity unless otherwise stated.

3.2 Provision of TARs and Forms of Accounts: The Context of the Study

As explained, all registered charities are required to produce a Trustees' Annual Report (TAR) and Annual Accounts. Although these are technically two documents, most charities combine them into a single document – the *Annual Report and Accounts* (AR&A).

¹⁴ Larger charities occurred proportionately more often in our 1402 sample than on the Register of Charities. So the level of compliance across all registered charities would in most cases be weaker than the averages shown in the "All" column for our sample, as compliance was generally stronger in larger charities.

Although we successfully obtained the AR&A for 1402 charities – either from the Charity Commission website, or by contacting smaller charities directly – we found a number of cases which *contained no TAR at all*. This ranged from 29.4% of the charities under £25K income, but even in the £100K - £500K income band we found 4.1% of charities provided no TAR (though some kind of TAR was included for all cases above the audit threshold).

By failing to provide a TAR, these charities had clearly not met the PBR requirement¹⁵ (nor had they met a number of other reporting issues under the Charities Act 1993). Conversely a few charities (0.6% of the sample) provided a TAR but no Annual Accounts.

In some cases the research team had to make a judgement as to whether a document such as an extra page attached to the accounts was intended to be a TAR or simply a note to the accounts. Our approach was to assume that anything which contained narrative reporting about the charity's activities was intended to be a TAR – if it was filed online with the charity's accounts or sent in response to our postal request – even if not labelled as such. However, for consistency in the methodology, we discounted supplementary documents such as an annual review if filed *in addition* to a TAR.

A brief review of the accounts indicated that 67.5% of charities in the sample had provided accounts in SORP format, and 22.8% had provided receipts and payments (R&P) accounts¹⁶. (A further 8.9% had accounts which did not appear to conform to either of the presentations permitted by the 1993 Act¹⁷.) Although the regulations for TARs are equally applicable to charities reporting on the R&P or SORP basis, those following the SORP for their accounts would naturally have had access to the guidance in SORP on the TAR.

In total, 40.1% had an audit report, and 39.0% had an independent examiner's (IE) report¹⁸. Whilst charities under £25K income in E&W are now exempt from a statutory obligation to have an audit or examination of their accounts, we found that even for those over £25K, 9.7% had no scrutiny of any kind (and a further 4.5% had scrutiny reports which do not comply with the 1993 Act). This is important because, as explained below, auditors and IEs are required to review TARs for any material inconsistencies with the accounts.

¹⁵ Unless otherwise stated, the statistics in this section are based on all 1402 charities studied, or all charities in the relevant income band. This includes those where no TAR was provided, so that the baseline remains the same. Those with no TAR were given a score of zero (or not applicable) on the subsequent PBR requirements.

¹⁶ See section C.2 in the Appendices for a breakdown of these figures by income bands.

¹⁷ It is possible that a few of these were "special case charities" under the 2008 Regulations entitled to apply other SORPs.

¹⁸ A further 1.4% had a reporting accountant's report under the Companies Acts (this should not have been used for the financial years we were reviewing) and 5.1% had other forms of accountants' reports (which do not meet the requirements for an audit or IE).

3.3 Length of TARs

The TARs were reviewed can be split by length: 19.5% were 1-2 pages long, 47.0% were 3-6 pages, 18.7% were 7-12 pages and 5.8% of charities provided TARs of more than 12 pages (totalling 91.1% which had provided some sort of document which appeared to be intended as a TAR).

So, only a few charities produced very long TARs – even for the charities over the £500K audit threshold, where the 2008 Regulations create additional requirements for TARs, only 14.8% of charities used more than 12 pages. Where a TAR was provided, the average length was 5.6 pages.

3.4 Trustees' Approval of TARs

The regulations require that the TAR must be signed and dated by the trustees, but we found many cases of unsigned TARs. Where a charity had filed an unsigned TAR with the Commission it was not therefore a valid TAR and did not meet the PBR requirement. (We noted that the Commission does not require TARs filed with them to contain original signatures, but a valid TAR must at least show the date of approval and the name of the person(s) who signed.) We took the same approach with the copies of TARs received from the small charities in response to our postal requests.

As shown in figure 1, we found that over the £500K audit threshold 70.6% had submitted TARs with clear evidence of approval by the trustees, but the proportion was smaller in the lower income bands, with just 20.9% of TARs approved in the under £25K band. Overall, only just over half the charities in our sample (53.4%) provided a TAR with clear evidence of trustee approval within the 10 month time limit.

In the sample as a whole (across all income bands¹⁹) we found 20.4% of charities had nothing whatsoever to suggest the TAR had been approved by the trustees (this included the 8.9% with no TAR at all – many of the rest were simply informal reports which provided little or no evidence of awareness of the legal requirement to provide a TAR).

A further 24.2% had some kind of statement implying trustees' approval, but without a date or signature. So, these charities had only submitted draft documents which may not have ever been approved by the trustees²⁰. (Many of these also contained no signature by the auditor or independent examiner.)²¹

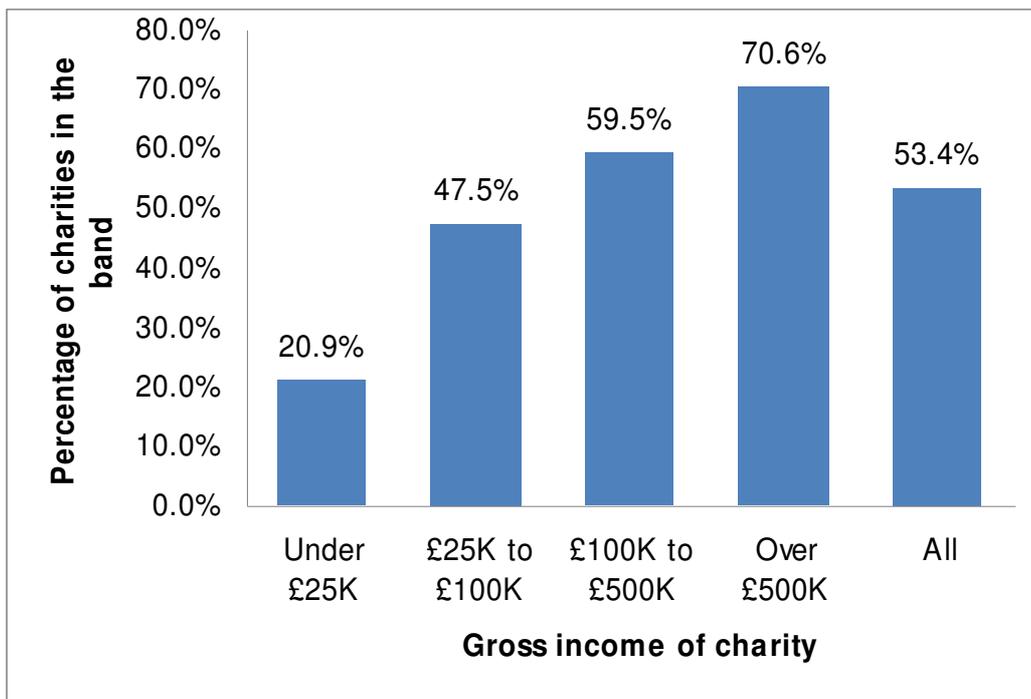
¹⁹ See section C.6 in the Appendices for a breakdown by income bands.

²⁰ It is possible that some charities which only submitted draft TARs actually had a signed version held by the charity, but the 1993 Act requires that a copy of the TAR is sent to the Commission and the 2008 Regulations require that the TAR must be approved and signed on behalf of the trustees.

²¹ Where a TAR was provided which had not been formally approved, we continued to assess the other aspects of the PBR requirements, and such charities are therefore included in the figures below. However, when it came to the assessment of "overall TAR quality in PBR terms" (see subsection 3.12) we restricted such cases to a maximum score of 2 (indicating that the TAR described the work of the

2.0% of charities had a properly approved TAR, but dated later than the statutory 10 months after year end by which the AR&A must be filed with the Commission where applicable.

Figure 1: Proportion of charities in each income band whose TARs were correctly approved by the charity's trustees within 10 months of year end



3.5 Inclusion of a Statement of the Charity's Aims

Even prior to the requirements for public benefit reporting, regulations have required TARs to include a statement of the charity's aims (often expressed as a statement of purposes of objects). This has been continued in the 2008 Regulations, and a TAR which omits such a statement thus fails to meet the requirements.

As explained in section 2, this is central to the issue of PBR, because it is very hard for anyone reading a charity's TAR to understand how activities undertaken for the public benefit are carried out in furtherance of the charity's aims if the aims are not themselves stated.

We found 88.9% of charities over the audit threshold provided a clear statement of the charitable aims, which appeared to be based on the charity's governing document. The charitable aims were clearly stated by 79.5% of those in the £100K to £500K band, and by 56.0% of those in the £25K to £100K band. Even for charities

charity to some extent and partly addressed the PBR requirement). In some cases the overall rating was well below this.

under £25K income, such a statement was included in 41.2% of cases (which translates to 58% of those under £25K who provided a TAR of some kind).

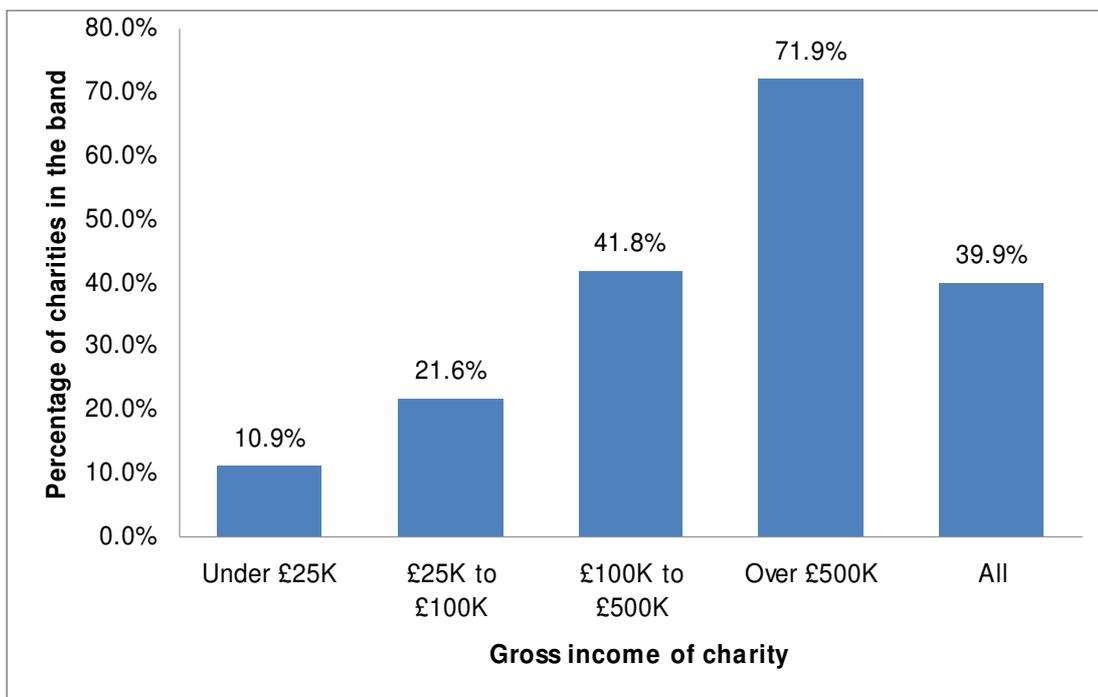
3.6 Consideration of Charity Commission Guidance on the Public Benefit Requirement

As explained in the previous sections, public benefit reporting includes two mandatory duties on trustees: (i) to report on the activities undertaken by the charity to further its charitable purposes for public benefit and (ii) to say whether the trustees have considered the Commission's guidance on the public benefit requirements.

In assessing (ii) we therefore reviewed all TARs carefully to see if there was a statement amounting to a confirmation by the trustees that they had considered or "had regard to" the Commission's guidance on public benefit. No set form of words is needed, but we were looking for an unambiguous statement of this kind. (For this, and for the requirements that follow, we reviewed the whole TAR, not just any section headed "public benefit".)

As shown in figure 2, the proportion of charities whose TARs included a clear statement on these lines varied from 10.9% for those under £25K income up to 71.9% for those over £500K.

Figure 2: Proportion of charities in each income band with a clear statement in the TAR that the trustees had regard to the Commission's guidance on the public benefit requirement



(Even where the statement was included, we found in phase 2 that such statements did not necessarily mean that the trustees had actually considered the Commission's guidance in any meaningful way – see section 4 below.)

In considering the implications of these figures, it is worth noting that the sample of charities under £25K was mainly based on those which had explicitly responded to a request to provide their AR&A for a study about public benefit reporting in TARs. Nevertheless, it is evidence that compliance is important even for charities which do not have to send in the AR&A to the Commission, that almost 11% addressed this requirement.

Amongst the three bands over £25K income, where the accounts should have been subject to an independent examination or audit, only 45% of our sample included a clear statement that the trustees had considered the guidance. Auditors and IEs are required to review the TAR to identify any material inconsistencies with the accounts²², and whilst the duties for auditors and IEs do not formally extend to aspects of the TAR with no impact on the accounts, one would have expected that an auditor or IE would draw the trustees' attention to such an omission. (The experience of the charities we spoke to in phase 2 of this research – see section 4 – indicated that for many charities the influence of their auditor or IE was important in terms of PBR.)

We also split the charities into their primary areas of activity, as indicated on the register of charities (eliminating those which had selected multiple categories – so we considered 746 charities with a specific focus). The proportion of TARs containing a clear statement that the trustees had considered the Commission's guidance varied only slightly between charities in different fields of activity – the differences were not enough to be statistically significant. So there is no evidence that charities in certain fields of activity were more likely to state that they had considered the Commission's guidance than those in other fields. (For details, see subsection C.7 in the Appendices.)

3.7 Reporting on Activities Undertaken to Further the Charity's Aims for Public Benefit

Requirement (i) of PBR in the 2008 Regulations is to provide “a report on the activities undertaken by a charity to further its charitable purposes for the public benefit”.

As explained in section 2, assessment of this required comprehensive reading of the TAR looking at all comments which sought to explain the charity's activities and who might benefit from them – in relation to the charity's aims. We recorded three

²² 2008 Regulations – Reg.24(g)(iii) & 25(h)(iii) for audits and Reg.31(j)(iii) & (iv) for IEs – although this is not mandatory if the accounts are on the R&P basis.

variables as part of this assessment – each was scored using a five point scale (0-4) on the extent to which the requirement was met.

- (a) An assessment of the extent to which the TAR recognised the charity's **beneficiaries** in describing the activities.

For example, under this variable we looked for statements showing that the focus of the charity's activities was (for example) "work with children" or "support to victims of crime" or provision of a facility to "everyone in the area" (but in every case, the beneficiaries had to be related to the aims). Where the charity's aims suggested no specific beneficiary class, we looked for statements indicating that the trustees were consciously seeking to benefit "the public at large" or "everyone" or terms of that kind.

- (b) An assessment of the extent to which the TAR explained the **activities** undertaken by the charity to further its aims for the public benefit.

The key issue here was how far the TAR described activities which related to the charity's aims (and hence with potential for public benefit). Some TARs contained no real description of activities at all – in other cases, the main discussion was around fundraising events, committee meetings, or internal appointments, with no obvious link to furthering the charity's aims.

- (c) An assessment of the extent to which the TAR explains **how** the activities benefit the beneficiaries.²³

Under this variable we were looking for some discussion of how the activities led to benefit for the beneficiaries. For example, if the main activity of a charity with religious aims was providing a place of worship, we looked to see whether the TAR explained how the building was used to advance the religion concerned. In a museum or gallery charity, we considered whether there was any discussion of how an activity of building up the collection actually benefited the charity's beneficiaries. (But in cases where the link between activities and beneficiaries was self-evident – e.g. a housing charity providing accommodation – we took this requirement as met if (a) and (b) were met.)

The results of these assessments of PBR in the TARs, broken down by the four income bands, were as follows²⁴.

²³ Assessments (a), (b), (c) in this subsection correspond to variables O, P, Q in the Appendixes.

²⁴ In each case the first line of the table includes those cases with no TAR at all.

(a) RECOGNITION OF THE CHARITY'S BENEFICIARIES IN THE TAR					
	Income Band				All
	Up to £25K	£25K to £100K	£100K to £500K	Over £500K	
No recognition of who are the charity's beneficiaries	40.3%	23.4%	10.6%	2.8%	16.5%
Weak indication that trustees are aware of who the beneficiaries are when describing the charity's activities	10.4%	14.1%	5.6%	4.0%	8.3%
Moderate indication that trustees are aware of who the beneficiaries are when describing the charity's activities	15.2%	10.6%	9.4%	6.0%	9.6%
Strong indication that trustees are aware of who the beneficiaries are when describing the charity's activities	12.3%	15.6%	14.7%	13.1%	14.1%
Clear understanding of who charity's aims seek to benefit	21.8%	36.4%	59.7%	74.1%	51.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

(b) EXPLANATION OF THE CHARITY'S ACTIVITIES IN TERMS OF PUBLIC BENEFIT					
	Income Band				All
	Up to £25K	£25K to £100K	£100K to £500K	Over £500K	
No description at all of activities	36.5%	22.4%	10.1%	2.0%	15.3%
Some description of activities but no reference to benefits to the public	15.6%	22.1%	13.2%	7.3%	14.4%
Some explanation of the activities in terms which appear to imply PB	28.4%	26.1%	19.0%	15.1%	21.3%
Clear explanation of the activities with some recognition of how they are for PB	11.8%	15.1%	22.8%	19.8%	18.1%
Clear explanation of the activities, showing how activities carry out the charity's aims for the PB	7.6%	14.3%	34.9%	55.8%	30.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

(c) EXTENT TO WHICH THE TAR EXPLAINS HOW THE ACTIVITIES LEAD TO BENEFIT FOR THE BENEFICIARIES					
	Income Band				All
	Up to £25K	£25K to £100K	£100K to £500K	Over £500K	
No description at all of the benefit arising from activities	57.3%	45.2%	22.0%	8.0%	30.0%
Benefit of charity's activities only described in terms of those the charity works with directly	10.9%	13.6%	12.4%	10.1%	11.8%
A vague explanation which hints at how the activities could benefit the beneficiaries	19.9%	20.6%	23.3%	17.3%	20.3%
Activities discussed in relation to beneficiaries at a general level but without full clarity	8.1%	10.3%	21.5%	28.4%	18.3%
Clear explanation of how activities lead to benefit for intended beneficiaries	3.8%	10.3%	20.8%	36.2%	19.6%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

These issues are at the heart of public benefit reporting.

On (a), we note that even in the smallest charities, 21.8% of TARs were judged by the researchers as giving a clear understanding of the charity's beneficiaries, and this increased to 74.1% of charities over the audit threshold.

On issue (b), we had assumed that describing the activities undertaken for public benefit would be one of the easiest issues for trustees to address. It has long been a requirement for a charity's TAR to include a "summary of the main activities and achievements of the charity during the year in relation to its objects"²⁵ (ever since reporting requirements first took effect under the Charities Act 1993) and the new requirement is very close to that. However, the proportion of TARs considered to have included a clear explanation of the activities undertaken by charity to carry out its aims for public benefit ranged from 7.6% in the smallest charities up to 55.8% for the charities over £500K.

Issue (c) – explaining how the activities lead to benefits for the beneficiaries – is potentially more challenging, especially in the case of charities with diverse groups of beneficiaries, or where the beneficiaries are the public at large. We judged that even

²⁵ Charities (Accounts and Reports) Regulations 1995 (SI 1995/2724) Reg.18(1).

in the largest charities (over £500K) only 36.2% had clearly addressed this issue, although others had made some steps towards this.

3.8 Achievements against Objectives and Strategies for the Future

As explained in section 2, for charities subject to audit (generally those over £500K income) the trustees are required to give more detail on the activities in terms of PBR. In particular, the TAR is required to include:

- details of the aims and objectives which the charity trustees have set for the charity in that year, details of the strategies adopted and of significant activities undertaken, in order to achieve those aims and objectives; and
- details of the achievements of the charity during the year, measured by reference to the aims and objectives which have been set.

We assessed the fulfilment of these by use of two further variables with five point (0-4) scores (considered in addition to (a) to (c) above):

- (d) the extent to which the TAR explains the charity's achievements in relation to objectives set (i.e. reviewing progress in public benefit terms against past aims); and
- (e) the extent to which the TAR explains the strategies adopted by the trustees to enhance or develop the charity's work in terms of public benefit (i.e. the charity's future plans in public benefit terms).²⁶

These assessments were included for all charities in the study, and we found that many charities below the audit threshold had gone some way to dealing with such issues, even though they were not generally required to do so – this was especially so for those in the £100K to £500K band (see subsection C.4 in the Appendices for details). However, the findings here relate purely to the 398 charities with over £500K income.

(d) EXTENT TO WHICH THE TAR EXPLAINS THE CHARITY'S ACHIEVEMENTS IN RELATION TO OBJECTIVES SET (Charities over £500,000 income only)	
No description at all of achievements against targets or objectives for the year	6.8%
Some discussion of achievements, but unrelated to charity's PB	12.1%
Some discussion of specific achievements relevant to the beneficiaries; not against objectives	40.2%
Some explanation of achievements against objectives	20.9%
Clear explanation of objectives set at the start of the year and measuring the charity's achievements against them	20.1%
Total	100.0%

²⁶ Assessments (d) and (e) in this subsection correspond to variables *R* and *S* in the Appendixes.

(e) EXTENT TO WHICH THE TAR EXPLAINS THE STRATEGIES ADOPTED BY THE TRUSTEES TO ENHANCE OR DEVELOP THE CHARITY'S WORK IN TERMS OF PUBLIC BENEFIT (Charities over £500,000 income only)	
No discussion of future strategy	15.6%
Vaguely, or in passing, addressed future strategies but only loosely linked to public benefit	14.6%
Some indication of future strategies but only loosely linked to public benefit	21.1%
Fairly clear explanation of future strategies but only loosely linked to public benefit	21.9%
Clear explanation of the future strategy linked to public benefit	26.9%
Total	100.0%

On both these relatively demanding requirements, we found that the vast majority of charities over the audit threshold made some attempt to discuss public benefit both in terms of past objectives and future plans.

However, we judged that only 20.1% of these charities had clearly and unambiguously included discussion of past objectives and subsequent achievements with a clear linkage to the issues of public benefit, and only 26.9% included discussion of future plans which had clear benefits for the charity's beneficiaries.

3.9 Discussion of Harm or Detriment

As explained in section 2, there is no requirement in the 2008 Regulations for trustees to consider issue of "harm" or "detriment" in reporting on public benefit. However, it was possible that some charities might wish to discuss these issues, bearing in mind principle 1c in the Commission's guidance,

We found only a very small proportion of charities explicitly discussed issues of harm or detriment in the TAR, although 16 cases (1.1%) were judged to have included some mention.

Where such issues were mentioned they included:

- recognition that some of the charity's plans might be unpopular with the local community
- discussion of risks to charity employees operating in war zones
- young people suffering illness or injury in the course of activities organised
- risks of funds being diverted to improper purposes in overseas countries.

Many charities discussed risks more generally as part of a risk assessment statement in the TAR (which is compulsory for charities over the audit threshold) but we aimed

to record discussion of harm or detriment only when it was linked to issues of public benefit reporting.

3.10 Private Benefit

Likewise, the 2008 Regulations do not require explicit discussion of private benefits in the TAR, although charities responding to principle 2d in the Commission's guidance might have wished to address private benefit issues.

Only 3.6% of charities made any mention of private benefits in their TARs, although this increased to 7.0% for those over £500K.

In many cases this mention was simply a confirmation that the charity was governed by unpaid trustees who take no remuneration for their services. However, it is not surprising that only a few charities addressed this in the TAR, given that a note on transactions with trustees is always needed in the accounts when using SORP.

One charity mentioned a property which was being rented from a trustee, and another explained that a former trustee had become an employee (with confirmation that the trustees had obtained Charity Commission consent for this).

3.11 Fee Charging and Affordability of the Charity's Services

Principle 2b(ii) in the Commission's guidance states that the opportunity to benefit must not be unreasonably restricted by the ability to pay any fees charged.

Whilst the 2008 Regulations do not require any explicit discussion of fee-charging in the TAR, the Commission has suggested that in responding to this principle, trustees may wish to comment in their TAR on how the organisation sets fees, how rates are set, and how far people in poverty have the opportunity to benefit (see table on p.23 for details).

The starting point for this part of the analysis was to attempt to identify those charities which charged fees of some kind. We only considered fees in relation to the main services provided to beneficiaries – i.e. fees which appeared to relate to primary purpose trading for a service provided to beneficiaries and where the relevant activity appeared to be a significant part of carrying out the charity's aims. We excluded fees which were only a very small part of a charity's work – e.g. charges for refreshments where there appeared to be no fees for the main service.²⁷ (In a number of cases, fees were identified from the accounts if there was no explicit discussion in the TAR.)

Even where fees were identified, it is important to note that this was not necessarily a fee incurred directly by the beneficiaries – for example, a housing charity charging

²⁷ We aimed to use the criteria given in "When is fee-charging a public benefit issue?" (section C1 in the Commission's guidance *Public Benefit and Fee Charging* – ref PB5 December 2008).

rents may have had most of the rents paid through housing benefits with only a few residents paying directly. (In some cases, the TAR explicitly mentioned how fees were paid, and commented that most beneficiaries were able to access fee support of this kind.)

Across the whole sample, we found around half of the charities appeared to have some material element of fee charging for beneficiary services and half did not (although there were a few ambiguous cases as indicated in the table).

<i>Whether charity appeared to charge fees for beneficiary services</i>	<i>Up to £25K</i>	<i>£25K to £100K</i>	<i>£100K to £500K</i>	<i>Over £500K</i>	<i>All</i>
Case I: Charity does not appear to undertake any activities where charges for beneficiary services might be applicable	54.5%	50.4%	58.1%	39.4%	50.1%
Case II: Probable fee-charging for beneficiary services ²⁸	4.7%	.9%	.6%	.3%	1.2%
Case III: Clear indication of fee-charging for beneficiary services	40.8%	48.7%	41.3%	60.3%	48.7%
Totals	100.0%	100.0%	100.0%	100.0%	100.0%
Total appearing to have fee-charging for beneficiary services (Cases II & III)	45.5%	49.6%	41.9%	60.6%	49.9%

So we identified 49.9% of charities in the sample (60.6% of those over £500K) having potential instances of fee-based services to beneficiaries where the trustees might have wished to discuss issues of affordability or access in the TAR. (However, this may well be under-reporting: as explained there is no explicit requirement under SORP 2005 to separate fee income, and there is no reason for trustees to mention fees in the TAR unless they feel there are issues of access and affordability which need discussion in relation to the public benefit requirement.)

But it must be stressed that there is no requirement to discuss affordability and access issues just because a charity charges fees – such discussion would only be expected where trustees felt it necessary to do so in responding to the questions raised by the Commission’s principle 2(b)(ii).

In these 49.9% of cases we looked for any discussion of steps mentioned in the TAR by which the trustees had sought to address issues of affordability, and we found mention of the following. Where more than one issue was mentioned, we selected the one which appeared most significant. (Percentages in the right hand column of the

²⁸ The ambiguity arises from combining the results of variables *U* and *V* in the Appendices. Most of the ambiguity relates to the smallest charities where TARs and accounts were frequently incomplete.

table relate purely to these charities which appeared to charge fees for beneficiary services – other figures relate to the whole sample.)

ISSUES MENTIONED IN TAR AS STEPS TAKEN TO MINIMISE ANY RESTRICTIONS ON PUBLIC BENEFIT DUE TO FEES CHARGED			
<i>Steps taken (Most significant step if more than one mentioned)</i>	<i>Proportion of charities over £500K mentioning the step</i>	<i>Proportion of all charities in the study mentioning the step</i>	<i>Proportion of all charities appearing to charge fees mentioning the step</i>
Reduced fees, lower (or free) charges or bursaries offered to assist those who might not be able to afford the full cost	28.9%	11.9%	23.8%
External funding sought to provide subsidies (e.g. from donors or public sector)	5.8%	4.0%	8.0%
Plans discussed to provide subsidies or reduced fees in future		.2%	.4%
Justification of costs as being reasonable with no need for subsidies or reductions	1.5%	1.4%	2.8%
Other explanations	1.3%	1.7%	3.4%
No direct discussion of steps taken to ensure affordability, even though charges for beneficiary services were recognised	23.1%	30.8%	61.7%
Total	60.6%	49.9%	100.0%

It must be stressed that this is simply an analysis of how far such issues were discussed in the TAR. Clearly the provision of reduced fees and bursaries is the most commonly mentioned means of addressing the possibility that the potential beneficiaries might have been limited by fees. Such steps were mentioned by 23.8% of the charities which appeared to charge fees for their main beneficiary services.

We found that 61.7% of fee-charging charities contained no discussion of steps which the trustees had taken to ensure affordability of the charities' services, but there could be many reasons for this. For example, many of these charities which charge fees only did so at a relatively modest level (e.g. small admission charges for activities) and they perhaps did not feel comment was needed. It also seems likely that many charities were in receipt of public sector funding (for example) which was used to reduce or eliminate direct charges to service users, but they may not have felt it appropriate to mention this in the TAR when explaining how the charity's activities are carried out for public benefit.

From the work in phase 2, we found that some parts of the charity sector are highly sensitised to this issue, and devoted considerable energy to the discussion of access and affordability of their services as part of PBR. But our sense from phase 1 is that roughly half of all charities are charging fees of some kind for services provided to

beneficiaries. It appears that the vast majority of these did not discuss in their TARs whether the level of charges and/or other funding available is enabling them to offer wide opportunities to benefit or whether the charges were creating any restriction on those who can benefit.

3.12 Overall Quality of TARs in PBR Terms

Having assessed all the individual criteria above, researchers awarded an overall score to each charity in terms of the quality of its TAR in terms of meeting the PBR requirements. This time a six point scale was used (0-5) where 4 indicated that all the legal requirements were met, but a score of 5 went further in highlighting an “excellent example of PBR” as perceived by the researcher.

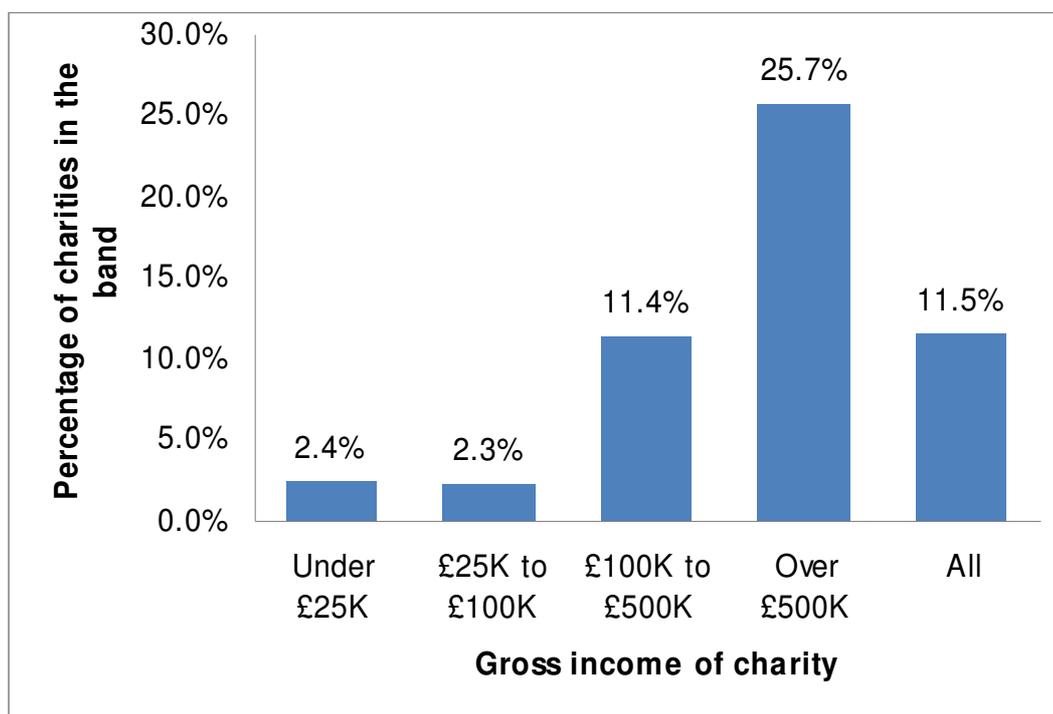
Overall PBR Quality by Income Band

The table below gives the full breakdown of the proportion of charities in each income band which were assessed as reaching the various quality levels of public benefit reporting. Only those in the last two rows (those scoring 4 and 5) were judged to have properly met their obligations under the 2008 Regulations.

<i>Quality of PBR</i>	<i>Up to £25K</i>	<i>£25K to £100K</i>	<i>£100K to £500K</i>	<i>Over £500K</i>	<i>All</i>
No TAR provided (score 0)	28.9%	12.6%	4.8%	.3%	9.3%
TAR is provided but with no discussion of public benefit (score 1)	25.1%	34.2%	15.9%	5.8%	19.6%
TAR describes the work of the charity to some extent and partly addresses the requirements for public benefit reporting (score 2)	33.2%	37.9%	43.8%	26.9%	35.7%
TAR appears to meet legal requirements but lacks clarity on some issues (score 3)	10.4%	13.1%	24.1%	41.5%	23.8%
TAR clearly addresses all public benefit reporting requirements (score 4)	2.4%	2.3%	9.6%	20.4%	9.5%
Excellent example of public benefit reporting (score 5)			1.8%	5.3%	2.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Across the whole sample, we found 11.5% of charities were judged to have met the full legal requirements on PBR (including 2% which were considered “excellent”). This varied from just 2.4% meeting the requirements in charities under £25K income, to 25.7% of those over £500K, as illustrated in figure 3.

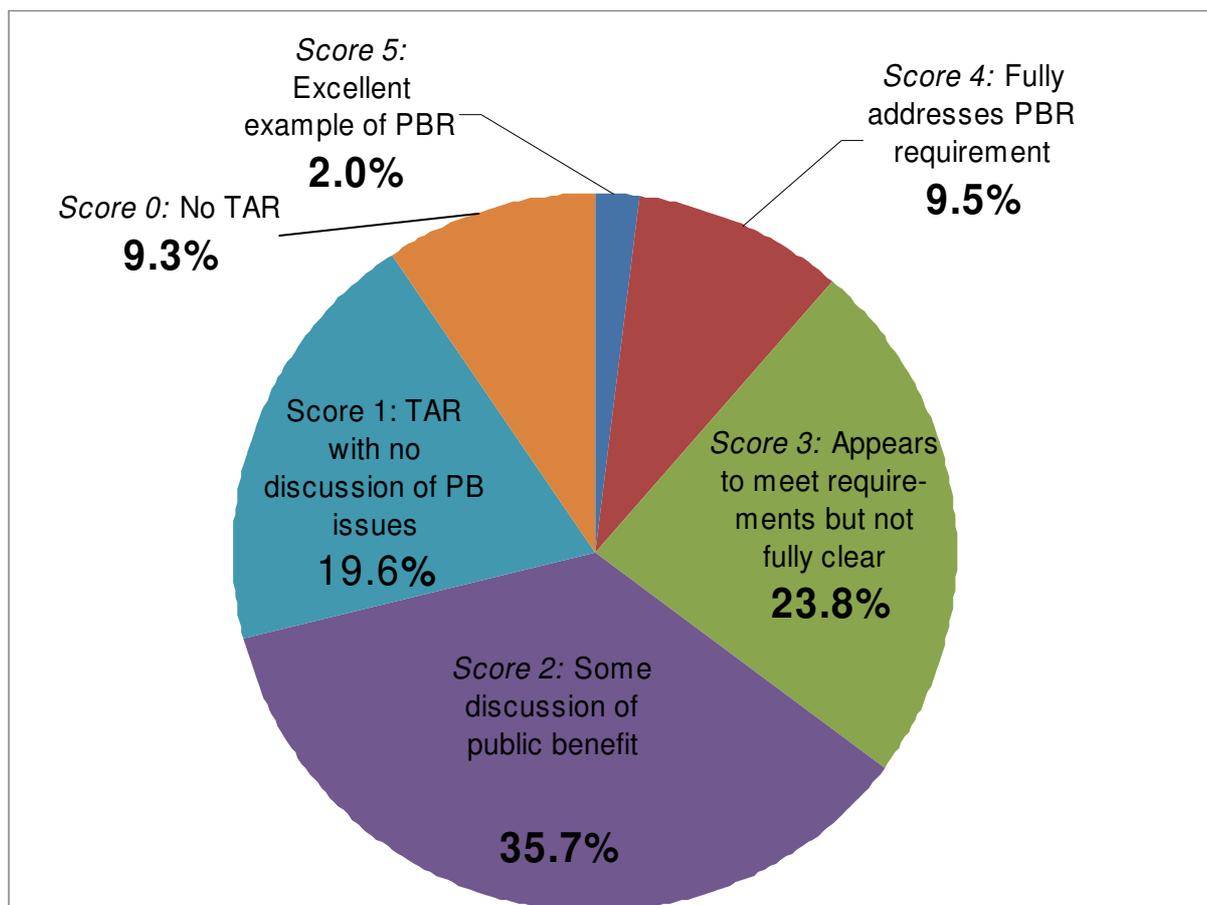
Figure 3: Proportion of charities in each income band judged to have clearly met the requirements for public benefit reporting under the 2008 Regulations



In addition to those who clearly met the full requirements, the table shows that a further 23.8% of charities across the sample were awarded a score of 3 (ranging from 10.4% of those under £25K to 41.5% of those over £500K). These TARs were judged to have come close to meeting the requirements but they did not quite explain the activities in a way which clearly showed how they were undertaken for public benefit (or, in the case of charities over the audit threshold, they may have omitted the additional requirements at this level). This meant that a total of 35.3% of charities in the sample fully or nearly met the requirements (scores of 3, 4, or 5) – this ranged from 12.8% of those under £25K to 67.2% of those over £500K. A table showing these cumulative scores appears in section 6.2.

Figure 4 illustrates the proportion of all charities in the study achieving each of the possible scores for overall PBR quality in the TAR.

Figure 4: Proportion of charities reaching each level of public benefit reporting (whole sample)



Overall PBR Quality by Charity Activity Area

We also analysed the quality of the TARs in terms of how far the PBR requirement was met, broken down by charity activity area (see subsection C.7 in the Appendices for details). We found substantial differences between charities in different sectors in terms of the proportions that met the requirements, as indicated below.

Charity Activity Area	Proportion of charities in the activity area shown which clearly meet (or exceed) the PBR requirement (score of 4 or 5)
General Charitable Purposes	3.3%
Education/Training	14.6%
Medical/Health/Sickness	18.3%
Disability	7.1%
Accommodation/Housing	19.4%
Religious Activities	7.7%
Arts/Culture	12.9%
Other	6.3%
All 746 charities with a single activity area	11.1%

Charities in the fields of accommodation/housing and medicine/health had the highest proportion of charities meeting the full requirements (19.4% and 18.3% respectively) as compared to just 3.3% of those in the field of “general charitable purposes”.

Analysis suggests that the activity area was statistically significant in explaining these variations. Perhaps it was easier for those in fields such as housing and health to describe the linkage between their aims, activities and beneficiaries.

Whilst there were some differences between the typical charity incomes across the different activity areas (see income table in section C.7 in the Appendices) this does not appear to be the main factor here. For example, of the eight activity areas, the accommodation/housing charities had the third from smallest median income, yet they achieved the highest proportion meeting the full PBR requirements.

However, these figures indicate that no sector of activity had more than one in five charities judged as having fully met the PBR requirement.

3.13 Comparing TARs Across Two Years

As explained in section 1, in addition to the analysis above, we identified 140 charities from the overall pool of 1402 for consideration of a second year’s TAR in order to see whether the PBR requirement was leading to substantive changes in the TAR from year to year.

For these charities, both years of the TAR were assessed using all variables of the framework in Appendix A. In addition, the researchers noted any qualitative differences found between the TARs of the earlier and later years.

In order to assess how far the quality of public benefit reporting was changing over the years, we focus on the *mean scores* obtained on each variable, comparing the earlier and the later year. As explained above, most of the requirements for public benefit reporting were assessed on 0-4 scales (0-5 in the case of overall TAR quality) so even a small difference in the mean scores could indicate substantial improvements in compliance with PBR from one year to another.

In 111 cases we compared a TAR for a year which began *prior* to 1 April 2008 with a later year. In these cases there was *no explicit requirement* to report on activities undertaken for public benefit in the earlier year. But even under the former 2005 Regulations, trustees were required to summarise the main activities of the charity in relation to the objects – which clearly overlaps with the concept of public benefit reporting. So it was not expected that charities would score zero for PBR quality in TARs prior to the current requirement. Moreover, many of the TARs for years commencing prior to 1 April 2008 would not have been prepared until after the Commission’s guidance had been issued, and trustees may have chosen to follow it voluntarily. (The final version of PB1 appeared in January 2008, so, for example, a charity with a December year end had ample opportunity to consider it when

preparing its AR&A for the year ended 31 December 2008, even though PBR was not mandatory until the following year.)

However, comparing years before and after 1 April 2008, we found relatively few cases where the TAR had changed substantially – many charities had simply added a few phrases. In some cases this was because even in the earlier year, the trustees were already explaining their work clearly in terms of the links between aims, activities and beneficiaries. Moreover, a number of charities manifestly adopted the full requirements of PBR earlier than needed, including reference to the Charity Commission guidance.

In 29 cases we compared two TARs for years which both began after 1 April 2008 – i.e. where both years were subject to the PBR requirement (these were all charities with spring or summer year ends).

For details of the mean scores in the earlier and later years please see Appendix D. The table below simply shows *differences in the mean scores* across the pairs of years in relation to two key variables: the confirmation that the trustees considered the Commission’s guidance (c.f. subsection 3.6) and overall TAR quality (c.f. section 3.12 above). Those differences marked * are statistically significant (see the Appendix for details).

MEAN SCORE DIFFERENCE OF LATER YEAR RELATIVE TO EARLIER YEAR		
Note: Differences which are statistically significant are marked *	<i>Does TAR contain confirmation that Trustees have had regard to CC Guidance on Public Benefit?</i>	<i>Overall TAR Quality in terms of Public Benefit Reporting</i>
	<i>0-4 scoring scale: difference in mean scores</i>	<i>0-5 scoring scale: difference in mean scores</i>
Pre- and post-2008 (before/after PBR) (111 comparisons)	+1.31*	+0.33*
Two post-2008 years (both within PBR) (29 comparisons)	+0.38*	+0.10

In general, charities with good TARs prior to the new requirements continued to produce good TARs subsequently. But there were also many TARs which had little or no explicit discussion of public benefit issues *whether before or after* 2008.

On the qualitative issues, in many cases the researchers noted ‘TARs are very similar’, though some had gone into more detail post-2008 e.g. for one charity we noted: ‘*Later TAR refers to CC guidance and includes additional detail about service to beneficiaries such as 24 hour phone line*’.

In the comparisons of two post-2008 years, we found a slight improvement in the overall standard of PBR – for example some charities which had missed requirements one year addressed them more clearly the second year, but there were few dramatic differences. The only difference that was significant was in the statement of having regard to the Commission’s guidance which appeared rather more frequently in the later year.

But the variations were rarely substantial: frequent comments from the research analysis included: *‘TAR almost identical to previous year with dates amended and an updated review of activities’*. Moreover, in at least one case the quality of PBR deteriorated in the second year, as it appeared that a new person had taken over preparation on the TAR and had opted for a minimalist approach.

4. The Practical Experience of Charities Seeking to Report on Public Benefit: Evidence from Focus Groups and Telephone Interviews

4.1 Participants and the Discussion Framework Used

Four focus groups and 15 telephone interviews were conducted with participants representing 30 charities.

All participants were drawn from the 1402 charities considered in phase 1, with a focus on charities which, based on the desk review, appeared to have dealt reasonably well with the PBR requirement (although only around half of those invited were judged to have produced TARs covering all the requirements). In all, 166 charities were invited to take part in this stage, across all income bands. Of these, 30 charities accepted, with 33 individual participants. Fifteen of these charities were below the £500K audit threshold and 15 above (although none were below £25K income). Further details about the invitation process and the types and sizes of charities represented are set out in Appendix B.

The participants cannot be considered representative of registered charities as a whole, as the selection was based on charities which had made reasonable progress on the PBR requirement, and then on individual trustees or staff from those charities who were sufficiently interested in the TAR to give time to speak to us. So, many were keen on compliance issues – but we wanted to speak to those who had been relatively successful at PBR to find out their experiences. However, as explained below, even these people mentioned a range of issues in their charities which meant that PBR had not been fully addressed, and in a few cases major misunderstandings emerged during the interviews and focus groups. Such difficulties are therefore likely to be proportionally much more common in other charities.

The discussion framework that formed the basis of these semi-structured focus groups and interviews is also shown in Appendix B.

A detailed content analysis of the resulting data was undertaken. The dominant themes which emerged are discussed in this section of the report. *'Quotes in italics'* are the actual words used by participants (recorded as accurately as the circumstances permitted). *'Quotes not in italics'* are paraphrased interpretations of what we consider respondents were communicating. All monetary amounts are indications of the charity's gross income but have been rounded to maintain anonymity.

The research topic of PBR encroached upon issues of governance in general, but this was not a general study of charity governance. As explained in appendix B, the Commission's initial intention for the research was that participants in this phase

would all be trustees as they have the ultimate responsibility for the TAR. But a number of charities indicated that the trustees delegated most or all of the work in preparing the TAR to a member of staff (often the CEO or finance manager/finance director – see subsection 4.4 below) and that it would be very difficult for a trustee to comment directly. In such cases, the invitation was extended to a suitable member of staff in the charity. We have attempted to distinguish clearly between comments from trustees and those from executive staff in the following analysis.

4.2 Framing the discussion

Before reviewing the content analysis we reflect upon how the discussions seemed to be framed by the participants.

The initial questions posed in these semi-structured encounters were framed by the researchers in terms of public benefit reporting (PBR) as a specific and discrete issue. It is interesting to note that whilst most participants were aware, to some degree, of the specific issues relating to PBR, interviewees often contextualised and framed their answers in broader terms – for example by reference to compliance issues in general, or within a risk analysis of all the major risks that they perceived their charities faced. Such framing was sometimes explicit but more often implicit.

- For those appearing to frame the discussion in terms of compliance, comments were made such as '*[PBR] is fairly low down on the list of worries of compliance issues*' and '*[PBR] is not that demanding compared to other issues of compliance*'. Such views reflect these participants' perceptions of the public benefit requirement as a "low concern" issue.
- However, some participants appeared to frame the discussion with higher levels of concern. For these charities, the question of meeting the public benefit requirement (or the possibility of falling short of this requirement) was perceived as an important element in the charity's overall risk assessment of the issues it was facing. In these cases, PBR was seen as a major challenge. Comments included: '*[PBR is one of the] increasingly onerous responsibilities on trustees*' and '*[Many] people do not understand the [demanding and complicated] role of the trustee [that includes dealing with PBR amongst other things]*'. The research suggests that PBR was a very important issue to these participants.

This distinction between low- medium- and high-concern charities relates to our understanding of the perceived risk (as expressed by the interviewee or focus groups participant) of the charity potentially being seen to have fallen short of the actual public benefit requirement, and the impact this would have. Not surprisingly, for charities with high levels of concern about the public benefit requirement, the process of reporting on public benefit was seen as more demanding.

This phase of the research thus showed that there is an important distinction between charities that perceived PBR as simply a reporting issue, and those charities that

considered PBR to have an agenda wider than simply the reporting of activities and beneficiaries. Evidence of these various levels of concern is given below.

4.3 The Importance of Narrative Reporting via the Trustees' Annual Report

Given that the research topic is public benefit *reporting*, this analysis begins by reflecting upon participants' overall perceptions of narrative reporting via the Annual Report and Accounts (AR&A). Analysis suggests that interviewees tended to see reporting in one of three ways.

- (i) Some saw it as merely a compliance issue. *'Tick the box and move on'* moaned one harassed senior administrator.
- (ii) Others saw it as a compliance issue, and also a way to demonstrate to potential funders that a charity had robust internal controls and effective governance. But they did not generally see the TAR as the main place to promote the activities of the charity to a wide readership.
- (iii) A final group concurred with (ii) regarding compliance, control and governance but also saw narrative reporting via the AR&A as a way of explaining what a charity did to any interested stakeholder. *'Reporting should come out in an almost poetic fashion!'* eulogised one trustee.

4.4 The Process of Preparing the Trustees' Annual Report ('TAR')

A variety of practice was observed in terms of preparing TARs.

Several instances were noted where it was the staff of the charity who prepared the TAR and trustees had no significant involvement in the actual drafting of it. Where this was the case the trustees generally approved the TAR at a trustees' meeting but with few amendments being requested. As a CEO of a £1M religious charity said: *'I write it - the trustees look at it - they might change a few words - but they basically approve it or veto it'*. We did not find any instances of a board of trustees rejecting a TAR drafted by staff.

The worst practice disclosed in this category was of a charity where the trustees only saw the TAR at the last minute and were asked to sign the TAR off without having had time to review it appropriately. This charity had decided to change its year end procedures in the wake of this incident.

Another popular way of preparing the TAR was for the staff of the charity (typically the CEO or a senior administrator) to prepare the TAR in conjunction with a subgroup of the trustees (typically the chair or a small committee). In this scenario the TAR would generally be taken to a full meeting of the trustees for sign off.

Subtly different types of relationship between staff and trustees were immediately recognisable in the discussions. One senior administrator of a £12M independent

school said that he simply drafted the TAR *'in agreement with the Chair'* whilst a trustee of a £4M hospice observed that for his charity the CEO *'guides the trustees [in the preparation of the TAR].'*

Good practice using this method of preparation included the use of 'away days' to keep trustees informed, circulation of discussion drafts by e-mail for review outside of trustee meetings and the use of subcommittees of trustees to *'thrash out the detail'*.

Less typically the chair or treasurer of the charity took specific responsibility for the preparation of the TAR but with assistance from the staff of the charity.

We came across two examples where the independent examiner or auditor had prepared the TAR. Both of these charities had income of between £150K and £200K. This method was defended by one trustee because *'quite a bit of information has been there for several years'* and the *'trustees [still] review it to see if it looks right'*.

In charities with income of less than £150K the TARs were often prepared by a single trustee.

The role of the auditor/independent examiner was also highlighted by many interviewees. It seems fair to conjecture that without the influence of the auditor or IE some of the charities represented would have failed to address this matter in their TARs unless the auditor/IE had at 'some point in time' raised the issue. This is covered in more detail in the next section of this report.

4.5 How had interviewees heard about the public benefit reporting requirement?

Some had learnt of the PBR requirement via their auditor/independent examiner. Generally this was in the form of some kind of briefing given by the auditor/IE prior to the preparation of the TAR, but occasionally it came after a review of a draft TAR by the auditor or IE.

Others had heard of the requirement from the electronic Charity Commission newsletter. Interestingly, one respondent had first heard of it at a religious sector specific conference at which a Charity Commission speaker had covered the PBR issue. Another had first come across the requirement when searching the Commission's website on another topic entirely.

There was a sizeable group of participants who are best classed as exceptionally well networked and informed on issues of charity regulation. We came across multiple examples of people who had learnt about the PBR issue through, *inter alia*:

- the charity's auditor/independent examiner
- the charity's lawyers
- the electronic Charity Commission newsletter
- sector specific association bulletins and conferences

- generic third sector/charity sector infrastructure or support organisations (typically through bulletins or conferences)
- professional groups - such as the Charity Finance Directors Group
- general third sector/charity sector press, and
- the national press.

One trustee confessed that he had simply been told about PBR by the finance director of his charity.

4.6 How far did the PBR requirement lead to different reporting behaviour?

Participants were asked to discuss whether their charities had behaved any differently as a result of the public benefit reporting requirement being introduced.

(a) The existing scale of reporting on activities

For several charities which historically had reported about their activities in detail the introduction of specific guidance about PBR appeared to have caused very little extra work. It was *'business as usual'* according to one small arts charity trustee. *'No changes were required - the beneficiaries are clearly defined and always have been'* said the CEO of a £400K social care charity. *'We took it in our stride, it didn't make a big impact [upon the work of preparing the TAR]'* observed another trustee.

(b) The link with governance

One senior administrator of a £700K grant-making charity clearly stated that *'it made us examine what we were doing...it made us expand on our thinking...'*. But he put a caveat to these comments by stating *'we haven't changed what we do, though'*.

This person then added: *'the guidance is about reporting and not about governance'*, which prompted considerable debate with other participants. We found some charities had been influenced to reconsider their activities and beneficiaries, but it was impossible to discover if it was the reporting requirements *per se* that had triggered this, or if other issues (such as the perceived threat of losing charitable status or the possibility of an inspection by the Charity Commission if issues weren't reported) had led to charities making (re)assessments of their activities and beneficiaries after the reporting guidelines were published.

(c) First year adoption of the PBR guidelines

The issue of first year adoption was mentioned by several charities. The approach to PBR in the first year saw distinct practices between those who saw public benefit as a high-concern issue, and the majority for whom it was a matter of less concern (see section 4.2 above for clarification).

Charities with low/medium concern on the public benefit requirement who had previously reported very briefly upon activities and beneficiaries generally spent

additional time enhancing the quality of their reporting on these matters. However, despite some extra work of this kind, these charities generally had very positive views on the process:

- The chair of a £4M medical grant-making charity was enthusiastic about the process and said that as a result they would now have a much clearer TAR, something he perceived to be a good thing.
- A trustee of a £75K charity said that the process had been a *'helpful trigger'* in explaining their work to potential supporters.
- A trustee of £1M religious umbrella group organisation, touched upon the interaction with governance, and said that he had used the process as *'a very useful agent of change in getting the charity out of its shell'*.

We did not hear any major complaints saying that the PBR requirement was a meaningless exercise. Indeed, several people specifically said that they thought it was a valuable requirement in helping charities to reflect critically upon what they actually did.

However, our participants included four charities which appeared to have *high-concern on the public benefit issues*, as explained above. These were two independent schools, a religious conferencing charity and a charity involved in extensive campaigning work, often directed at politicians. Whilst the time spent on complying with the reporting guidance differed from charity to charity it was evident that the PBR regulations led to an exceptionally clear focus being applied to the reporting of activities and beneficiaries for these specific charities.

The campaigning charity simply stated that *'It is very important that we explain the link between our activities and the relief of poverty'*. This was something they had not done prior to the PBR requirement being brought in.

One independent school had placed *'a huge amount of effort'* preparing the TAR. They formed a small group of governors specifically to manage the issue. This charity noted that the effort required in the first year was far greater than in subsequent years. However, their effort was described as being driven by a desire *'not to stand out [from other schools]'* rather than out of a desire clearly to explain their activities and beneficiaries.

The other independent school actually simplified their reporting. This was because they were *'in a good place [regarding PBR]'* before the requirements were introduced, having expanded their reporting of activities several years ago.

(d) The assessment of beneficiaries

During our discussions it became evident that most people found it straightforward to conceptualise if an *activity* created a charitable benefit, but some people found it hard

to conceptualise and communicate who the actual *beneficiaries* of their charities were. Where the beneficiaries were easy to define this tended not to cause problems, but where beneficiaries were broader or harder to define some interviewees tended to frame the public benefit debate in terms of 'what we do' rather than 'what we do *and* who do we do it for'.

A good example of this was an experienced trustee of a £1M wildlife charity that had 10,000 members. He sought to explain who the beneficiaries were in terms of the public who lived near to the wildlife area concerned without reference to any of the 10,000 members of the charity. Furthermore, the chair of a £4M charity that helped educate people about, and raise awareness of, organic environmental issues, stated that as a board of trustees they had not discussed, and were not entirely clear about, who their beneficiaries were. The beneficiaries could just be the public they educate, or they could be the public in general. The issue was not clear and certainly had not been resolved by the trustees.

As an example of good practice, a few charities had actually categorised and defined their beneficiaries as part of the process, and were able to explain the categorisations in the focus groups.

An example of creative practice was that of a charity that, as a result of reviewing the PBR requirements, appeared to have chosen to split the description in the TAR of what they do by beneficiary, rather than by activity.

4.7 Use of the Charity Commission's General Guidance on Public Benefit

Participants were asked if they had seen, and read, the Charity Commission's booklet *Charities and Public Benefit: The Charity Commission's general guidance on public benefit* (PB1) (or read the webpage with the same text).

Most participants claimed either to have seen, or at least been aware, of this specific guidance, although we found a number who only discovered this guidance in the course of our sessions (even though they had agreed to represent their charities in a discussion on PBR).

The distinction between 'seeing' and 'being aware of' is discussed in the next subsection.

4.8 “Having regard” to the Charity Commission’s guidance on public benefit

As explained in section 2, the 2008 Regulations require that a TAR must 'contain a statement by the charity trustees as to whether they have complied with the duty in section 4 of the 2006 Act to have due regard to guidance published by the Commission.' Participants were asked if they had included this phrase, or something equivalent, in their TAR.

In three cases, including trustees of large and small charities, the answer was 'no'. This comment concurred exactly with the charities whose TARs were silent on this point. In some other cases the response was along the lines 'I presume so', and, for these, a statement of some kind was generally found when the TAR was inspected.

In one case, exemplifying good practice, a trustee said 'yes' and explained that he and the CEO had both thoroughly read the guidance and then briefed the trustees as a whole on the matter.

What the phrase actually meant

We explored with participants what the phrase 'trustees have had due regard to the Charity Commission guidance on Public Benefit' actually meant to the trustees and staff who took part. The results indicate that the phrase actually meant subtly different things to different people. Shown below is a synopsis of constructions that represent people's precise views on what this phrase actually meant to them.

The phrase could mean:

- 'an executive has looked at the Charity Commission Guidance on Public Benefit and considered how this impacts the charity. As trustees we trust this executive, and so as trustees we are happy to say that 'we have had due regard' to the issue.'

Or it could mean:

- 'some, or maybe just one, of the trustees has looked at the Charity Commission Guidance on Public Benefit and considered how this impacts the charity. As trustees we trust them, and so as trustees we are happy to say that *we have had due regard* to the issue'.

More subtly the phrase could also mean:

- 'all of the trustees are *aware* that there is a current debate about public benefit. Some of the trustees have read commonly available information about this, but this does not specifically mean that we have looked at the Charity Commission Guidance. Notwithstanding this the trustees are happy to say that we have *had regard to the guidance* as we feel that our activities are providing public benefit.'

In summary, there are two key points arising here.

Firstly the phrase 'the trustees' has a range of meanings that encompasses ideas such as: 'some of the trustees' or 'the trustees, depending vicariously upon another trustee', or 'the trustees, depending vicariously upon an executive' or even 'the trustees depending upon another agent'.

Secondly the phrase 'the guidance' does not always mean the actual booklet or webpage *Charities and Public Benefit: The Charity Commission's General Guidance*

on Public Benefit. The phrase can often mean 'the issue of public benefit as reported and discussed within the sector' as opposed to the actual guidance itself.

Balancing these conclusions, a finance director of a multi-million-pound medical research charity who had read the actual guidance herself, but who did not think that any of her charity's trustees had read it, pragmatically asserted: '*Us providing public benefit is not in doubt. It is particularly uncontroversial.*'

4.9 How far participants had used the sub-principles

The Charity Commission Guidance gives eight specific sub-principles (see section 2.5 of this report) which expand upon the two central principles of public benefit.

As previously discussed, it appeared that most charities performed a type of risk assessment exercise with regard to the public benefit requirement. and this informed the level of concern attached to PBR. This risk assessment was generally not formalised but interviewees often spoke in ways that suggested that they had considered the potential impact of the Commission's public benefit guidance upon their charities. The following analysis is based upon how we considered individual charities to have perceived themselves.

(a) Charities with low concern on the public benefit requirement

Participants who perceived their charities to be at low risk of falling short of the public benefit requirement generally had not made reference to the sub-principles. Presumably this was because they did not consider it necessary.

One of these charities recycled furniture, making charges for furniture it provided (and the purchasers of the furniture were mainly the intended beneficiaries). But the trustee representing the charity did not realise that '*[the sub-principles] applied to a charity like his*'. The trustee considered that the fees were '*probably affordable*' by the intended beneficiaries, but conceded that whilst the trustees had discussed the absolute pricing structure, this discussion had never been framed by the specific Charity Commission Guidance. Similar views were expressed by another charity involved in furniture sales to people on low incomes.

(b) Charities with medium-concern on the public benefit requirement

Interviewees who perceived the public benefit requirement as a medium concern issue for their charities had generally made reference to the sub-principles in their TARs. We came across several instances of boards of trustees formally reviewing the charity's fee charging policy in light of the guidance. For example a doctor, who was a trustee of a £100K health-based grant-making charity, mentioned that this charity had considered issues pertaining to private benefits arising to doctors who worked on the same premises as the charity.

The framing of the discussions about fee charging is worthy of note. It appeared that when trustees had met to discuss fee charging within medium-concern charities the debate was generally framed in terms of 'we need to be economically sustainable, can we drop our prices in any area and still maintain a viable business model?' Decisions about pricing were generally made with reference to financial sustainability or sector comparisons, rather than to a specific interpretation of the Commission's guidance or sub principles. For example, a £4M charity that promoted organic education said that, for a particular service, their board had taken '*a pragmatic view on fees*' (i.e. wanting to ensure financial sustainability) and because 'other charities charged for similar services' they felt OK to do so too.

Interestingly, we did not speak to anyone who used rhetoric suggesting that their desire to reduce fees was prompted by a desire to make the service more accessible to users. Furthermore, one £4M industry specific training body asserted that even though they had launched a bursary scheme in response to the guidance they were '*not actively publicising it*'.

We came across one instance where trustees, as a direct result of reviewing the guidance, had decided to offer reduced prices to unemployed people. However, the interviewee reported that this change in pricing had not impacted demand amongst this group of potential users.

(c) Charities with high concern on the public benefit requirement

Every charity that had high-concern in terms of meeting the public benefit requirement had made specific use of the sub-principles in their reporting. As noted, these charities comprised two fee charging independent schools, one religious conferencing organisation that primarily served followers of the faith concerned, and an organisation involved extensively in campaigning (ultimately to relieve poverty).

We were surprised that another religious charity, which charged fees for education, did not appear to have high concern on the public benefit requirement. This charity had not looked at the sub-principles in detail, '*We are still understanding where we are at on these issues*', was their comment.

The comments from charities with high concern on this topic are enlightening in showing the impact of PBR. All of these charities had made reference to the sub-principles in their TARs, but the sub-principles in themselves were generally not perceived to be the most important guidance on the topic. 'It is the practical implementation of the guidance that we are interested in, *not the guidance itself*, [which is] *a bit prescriptive*' said a senior manager from a £12M fee paying school. Reinforcing this point, rather than rely solely on the sub-principles, one of the other high-concern charities had chosen to meet with the Charity Commission on a face to face basis to clarify what the guidance actually meant to them in practice.

4.10 Mission drift

Beyond the central issues of public benefit *reporting*, several participants raised the issue of “mission drift” more broadly in relation to the charity’s work. In a number of instances the PBR requirement had prompted charities to focus afresh on their formal aims.

However, we identified two examples where trustees’ perceptions about the objects of their charities did not concur with the actual objects. For example the work of a charity that existed to advance the relief of poverty by recycling donated furniture was explained to us in terms of: (a) championing an environmental agenda by preventing furniture from being sent to the landfill site, and (b) helping those who couldn’t afford furniture from other sources. So the charitable purpose was only seen as the secondary aim.

One participant made the comment *'We flagrantly disobey our objects.'* He asserted that they had sought permission from the Charity Commission to change their objects but had been refused. But he added *'I don't care. So now we are consciously doing work outside our objects. The trustees have not got time to b***** around with all this – we have other things to do.'*

Whilst these isolated examples demonstrate that the understanding of the interviewees did not correspond exactly with the stated objects, these charities were still carrying out activities that would be charitable in a charity with slightly wider objects.

An example of good practice in protecting against mission drift was given by the CEO of a £400K social care organisation. As part of the review concerning public benefit the board of trustees had been supplied with details of exit interviews with service users. This helped the trustees find out *'if the organisation was doing in practice what they [the trustees] thought it was!'*

More encouragingly other charities spoke about how the public benefit requirement had forced them to re-examine what they were actually doing. A newly incumbent trustee said that the PBR requirements were *'a very useful agent of change in getting the charity...[to focus on its mission]'*. Several charities agreed that reviewing how to explain their work for PBR had *'clarified their direction of travel'*.

4.11 Other comments about the framing of the fee-charging debate, contracts, and restrictions on beneficiaries

Policies on fees were seen as important by a number of charities in terms of the public benefit requirements. However, we found several instances of charities framing the debate regarding fees in terms of *'what does the sector consider reasonable?'* as opposed to *'how does our policy take account of the Charity Commission’s principles?'* For example a £150K almshouse charity said that that by

following the fee recommendations of their sectoral umbrella body, they felt they were complying with the Charity Commission guidance, but in an implicit way.

Our sample also contained charities that entered into contracts either with local authorities or Primary Care Trusts to provide services to end users. Such contracts are generally 'free' to the end user, but contractual terms can mean that beneficiaries are restricted under the terms of the contract.

Anecdotally it would appear that many such charities appraise the effectiveness of such provision in terms of 'how well the contract has been delivered' as opposed to 'how easily and effectively have the intended beneficiaries of the charity been able to access the service?' We did not come across any instances of a board of trustees who said that they had discussed the potential conflict between delivering such contracts effectively and ensuring that beneficiaries were not unduly restricted, as per the Charity Commission guidance.

A religious educational charity mentioned in their TAR the restrictive nature of parts of their work (some of their training was only available to males). Discussion with the trustee concerned, whilst not exhaustive, suggested that this disclosure was probably intentional and might have been included to present the charity in a favourable light to some potential supporters who would see the restriction on beneficiaries as a positive feature, rather than a negative one, of the charity's work.

4.12 Other comments about harm and detriment

One charity had chosen to withdraw provision from a group of particular beneficiaries because they felt that the potential harm was greater than the potential benefit. This decision seemed to have been driven by regard to personal safety issues for the users concerned, rather than by specific reference to the guidance.

A further charity had identified possible detriment arising from its work. However, the trustee of this wildlife/conservation charity stated that *'Almost everything [we] do potentially has a disadvantage – it would clutter up the trustees' report to mention them all'*.

4.13 Professionalisation of the sector

The majority of the participants in this phase, whether trustees or executives, appeared to fit the description of charity sector 'professionals' who had a considerable awareness of charity compliance issues. Notwithstanding this observation we include some comments made by interviewees which highlight that not every trustee has the same level of 'literacy' in these matters.

A few of the trustees only realised through our discussions that they had had completely missed the duty to consider the Commission's guidance (and were unaware of it until we showed the PB1 booklet to them). In some of these charities, an accountant had inserted the "had regard" phrase into the draft TAR without the

trustees appreciating its significance. This led one trustee to ask us: *'Can you explain what that actually means?'*

One trustee who had seen the guidance candidly said that it was *'framed in language which can be scary'*.

The chair of a rural charity stressed that he did not have internet access and that this now prevented him receiving the electronic Charity Commission bulletins. In the past he had often used the printed Charity Commission publications.

5. Examples of Good Practice

5.1 Some Examples of Good Practice in PBR

In phase 1 we identified around 2% of the sample (28 charities) whose TARs were considered by the researchers to be “excellent” in terms of their public benefit reporting – i.e. they were scored 5 on overall quality. Whilst this was, of necessity, a subjective assessment, we considered that in addition to meeting fully the PBR requirement in the 2008 regulations, these charities explained the way in which they carried out their activities for public benefit in an exceptionally clear manner – making it easy for a reader unfamiliar with the charity to understand how the charity operated for public benefit.

The 28 excellent examples had incomes from around £100K to £40M. There were no very small charities (under £100K income) judged to be excellent (score of 5) – although 2.4% of charities up to £25K and 2.3% of those in the £25K to £100K band were judged to have met all PBR requirements (a score of 4).

Three charities at different levels of income are selected here to illustrate excellent examples of PBR²⁹. None of their TARs were glossy documents, but in every case the link between aims, beneficiaries and activities was very clear.³⁰

<i>Size</i>	<i>Name of charity</i>	<i>Registered charity number</i>	<i>Financial year ending</i>	<i>Gross income</i>	<i>Main area of activity</i>
Smaller charity	Camel Pre-School (Oxfordshire)	1023768	6 Aug 2009	£111K	Education/training
Medium-sized charity	Citizens Advice Waverley (Surrey)	1098859	31 Mar 2010	£380K	General charitable purposes
Larger charity	Coventry Diocesan Board of Finance Ltd	247828	31 Dec 2009	£7.65M	Religious activities

All three had prepared their accounts on an accruals (SORP) basis, but with a range of presentations. The first two had an independent examination of their accounts, while Coventry DBF had an audit.

5.2 *Camel Pre-School*

Camel Pre-School is an unincorporated charity governed by a constitution with seven trustees at the date of the last report. Their accounts were prepared using the

²⁹ These examples are included with the agreement of the charities concerned.

³⁰ The inclusion of these charities only relates to the assessment of their TARs, and then only on PBR issues. We did not, for example, consider broader issues of SORP compliance, nor did we consider issues of layout and presentation.

Charity Commission's standard forms for accruals accounts³¹, but the TAR is a clearly set out word-processed document of four pages.

The first page of the TAR clearly shows the name of the charity, financial year, and page 2 tells us about their structure and governance and their objectives and activities. Within this section, the trustees give the following details:

Objectives and Activities

- Objectives of the charity: The aims of the Pre-School are to enhance the development and education of children, primarily under statutory school age, by encouraging parents to understand and provide for the needs of their children through community groups, and by:
 - (a) offering appropriate play, education and care facilities, family learning and extended hours groups, together with the rights of parents to take responsibility for and to become involved in the activities of such groups, ensuring that such groups offer opportunities for all children whatever their race, culture, religion, means or ability;
 - (b) encouraging the study of the needs of such children and their families and promoting public interest in and recognition of such needs in the local areas;
 - (c) instigating and adhering to and furthering the aims and objects of the Pre-School Learning Alliance.
- In adopting the Pre-school Learning Alliance Model Constitution for Pre-schools, and in planning our activities and formulating our policies, the trustees have given due regard to the guidance on public benefit published by the Charity Commission.

This is followed by further details about how the Pre-School operates, with a major focus on the commitment to the children as the beneficiaries. The TAR includes details of achievements and performance (which are not compulsory for a charity of this size).

The largest source of income to the charity is fees (£108K out of £111K total income) but the TAR discusses in some detail how the trustees have sought to ensure the opportunity to benefit is not restricted by this:

- Camel Pre-School strives to ensure that the opportunity to benefit from attending the pre-school is available to the whole community, regardless of financial considerations, by:
 - Taking part in Oxfordshire's Nursery Education Funding Scheme providing the core entitlement of up to 12½ hours a week for 38 weeks a year to three & four year-old children, and allowing parents to use their entitlement flexibly to maximise the benefit
 - Providing the opportunity to pay fees termly or in instalments (monthly, weekly or other timings as agreed)
 - Offering flexibility, so that families can re-arrange the sessions attended to meet

³¹ Charity Commission publication CC17 – forms used in Excel format.

changes in their personal or financial situation

- Supporting families in investigating alternative funding available
- Undertaking fundraising activities to supplement the pre-school's income, ensuring that fees charged are kept as low as possible. During the year Camel Pre-School has undertaken a number of fundraising events, such as [...]. Net fundraising amounted to £1399 (2007/08 £1141).

5.3 **Citizen's Advice Waverley**

The TAR of Citizen's Advice Waverley begins with the statement: *'The outside world looks on Waverley as part of 'leafy Surrey' with nothing but affluence. However, we know that this is far from the truth. Child poverty increased in Surrey between 2001 and 2007, whilst nationally it decreased; exclusions from school are twice the national average; we have the fourth largest population in Britain of people without permanent homes; domestic violence levels in Surrey are high and rising; and we have one of the highest elderly populations in Britain, many of whom are struggling financially.'*

This shows that the trustees of this charitable company are focused on their beneficiaries from the outset. The whole TAR is just 8 pages including a number of bar charts and pie charts showing the clients they have reached, and monitoring achievements against targets (again, not compulsory as the charity is below the audit threshold).

There is a clear link between the charitable aims and the trustees' specific strategic aims:

The Trustees confirm that they have complied with the duty in Section 4 of the Charities Act 2006 to have due regard to the Charity Commission's general guidance on public benefit.

Related Parties

[This section explains that CA Waverley is a member of Citizens Advice, but is an independent charity.]

Charitable Aims

The Charity's aim is to promote any charitable purpose for the benefit of the community in Waverley and the surrounding areas by advancement of education, the protection and preservation of health and the relief of poverty, sickness and distress.

Strategic Aims and Objectives

The overall strategic aim of the Charity is:

"To help people in all sectors of the Waverley Community to resolve their problems through the provision of high quality information, advice and advocacy and by influencing policy makers."

During 2009/10 it delivered this aim by:

- providing free, confidential, impartial and independent advice and information to the local community from four advice centres, located in Cranleigh, Farnham, Godalming and Haslemere.
- exercising a responsible influence on the development of social policies one services so as to ensure individuals did not suffer through a lack of knowledge or an inability to express their needs effectively.
- delivering a program of basic training in money management that provided people at risk of financial exclusion and those facing significant new financial responsibilities with the knowledge and skills to best manage their money.

It also provided outreach services in three locations of significant social deprivation within Waverley [*details given*] and a home visiting service for people unable to visit their local advice centre because of age or disability.

The TAR proceeds to give details of the service delivery provided, the organisational values and a section headed “Our benefit to the local community” which spells out the impact of the charity’s work. They show how the benefits of their work extend beyond the immediate clients which the charity advises.

5.4 Coventry Diocesan Board of Finance Limited

To many people outside the Church of England it can be hard to understand the role of a Diocesan Board of Finance (DBF) charity in supporting the separate parishes of a diocese – in this case across a large area of the West Midlands. It can also be a challenge for “umbrella” charities of this kind to spell out who benefits from their work, given that much of the focus is support to other charities. Furthermore, religious charities are sometime shy of explaining what they actually do to advance the relevant faith for public benefit.

Despite being a large charity with many different activities and complex governance (it is a charitable company with 24 trustees at date of the TAR), Coventry DBF avoids all these problems. The main body of the TAR is 8 pages long (including some summary financial information) but appendices provide administrative details and a very helpful explanation of the structures in the Church of England, including the relationship between the parishes, the diocese, the Cathedral, and the National Church Institutions. This information is vital to a non-specialist reader.

Within the body of the TAR is a clear and simple public benefit statement, but it only works because it is underpinned by clear supporting details throughout the TAR.

Objectives and activities

The CDBF aims to promote, facilitate and assist with the work and purposes of the Church of England for the advancement of the Christian faith in the Diocese of Coventry and elsewhere.

In order to achieve this aim, the CDBF's strategy is to maintain sound finances so that it can continue to support parochial ministry through the payment of stipends, the provision of housing and providing training and other support to both ordained and lay people in parishes across the Diocese.

The main activities of the CDBF are as follows:

- Support for Mission and Ministry in the Parishes (includes all clergy training, housing, stipends, pension and all other expenditure supporting parish based ministry).
- Support for the National Church institutions by way of an annual grant paid to them. This grant includes a contribution to the cost of training ordinands and the cost of providing retirement housing for clergy under the CHARM scheme.

Public Benefit

The Trustees believe that, by promoting the work of the Church of England in the Diocese of Coventry, the DBF helps to promote the whole mission of the Church (pastoral, evangelistic, social, and ecumenical) more effectively, both in the diocese as a whole and in its individual parishes, and that, in doing so, it provides a benefit to the public by:

- Providing facilities for public worship, pastoral care, and spiritual, moral, and intellectual development, both for its members and for anyone who wishes to benefit from what the Church offers; and
- Promoting Christian values and service by members of the Church in and to their communities, to the benefit of individuals and society as a whole.

The Trustees confirm that they have referred to the guidance contained in the Charity Commissioners' general guidance on public benefit when reviewing the Charity's aims and objectives and in planning future activities.

6. Conclusions

The aims of this research were:

- (a) to assess the extent to which trustees have fulfilled their duties of public benefit reporting; and
- (b) to explore the quality of their public benefit reporting.

We considered the two central requirements of public benefit reporting (PBR), as set out in the 2008 Regulations. For every registered charity preparing a trustees' annual report (TAR) for a financial year which began on or after 1 April 2008, the TAR must include:

- (i) a report of the activities undertaken by a charity to further its charitable purposes for the public benefit; and
- (ii) a statement by the charity trustees as to whether they have considered (or "had regard to") the Charity Commission's guidance on public benefit.

Further requirements apply to charities whose accounts are subject to audit.

We looked closely at how far these requirements had been met in practice, and at the processes charities had adopted in doing so. More broadly, we were also asked to look at the processes used by charities in preparing their TARs, the extent to which trustees made use of the Commission's guidance, and the overall impact of public benefit reporting.

6.1 The charities studied

Phase 1 of this study involved a desk-based review of public benefit reporting (PBR) across 1402 charities, spanning all sizes of charity and many different areas of charitable activity. For some of these charities we looked at two years of reporting. In phase 2 we also spoke directly with trustees or senior members of staff in 30 charities, through focus groups and telephone interviews, asking them to share in detail their practical experiences of PBR on an anonymous basis.

Our findings are presented separately in relation to charities in the four income bands used: £5K to £25K, £25K to £100K, £100K to £500K, and those over £500K. In each band we only considered charities which had filed accounts with the Commission for a year since PBR took effect or (in the lowest band) where we were able to obtain the Annual Report and Accounts directly from the charity.

In phase 2, charities across all income bands which had achieved a reasonable standard of PBR were invited to take part in the focus groups and telephone

interviews (however, there was no requirement for these charities to have met the requirements in full). We contacted 166 charities for this phase, of which 30 agreed to take part: they were represented by 23 trustees and 10 senior members of staff.

6.2 The extent to which charities have fully addressed public benefit reporting requirements have been fulfilled

We found that the standards of PBR varied enormously. However, it is important to note that in most cases we were looking at charities' TARs in the first reporting year where PBR applied: for any new requirement there is necessarily a learning curve. In the few cases where we were able to consider two years since the PBR requirement took effect (see section 3.13) standards of compliance were on average increasing slightly from year to year.

However, taking the full requirements PBR as required by the 2008 Regulations, our assessment concluded that the proportions of charities which had exceeded the PBR requirements, met them, or nearly met them, were as follows. (See Appendix A for details of the scoring system.)

<i>CUMULATIVE PROPORTIONS OF CHARITIES IN EACH INCOME BAND ADDRESSING MOST OR ALL OF THE PBR REQUIREMENTS</i>					
	<i>Up to £25K</i>	<i>£25K to £100K</i>	<i>£100K to £500K</i>	<i>Over £500K</i>	<i>All</i>
Excellent example of public benefit reporting – goes beyond the mandatory requirements (score 5)			1.8%	5.3%	2.0%
TAR clearly addresses all mandatory public benefit reporting requirements (or more) (score 4 or 5)	2.4%	2.3%	11.4%	25.7%	11.5%
TAR clearly addresses all mandatory public benefit reporting requirements OR addresses most of the legal requirements but may lack clarity in explaining activities for public benefit (score 3, 4, or 5)	12.8%	15.4%	35.5%	67.2%	35.3%

The middle line (shown in bold) identifies the proportion in each income band which clearly met the full legal requirements. In these cases we concluded that the charities had complied with both requirements under the 2008 Regulations (and the additional requirements for charities over the audit threshold where applicable).

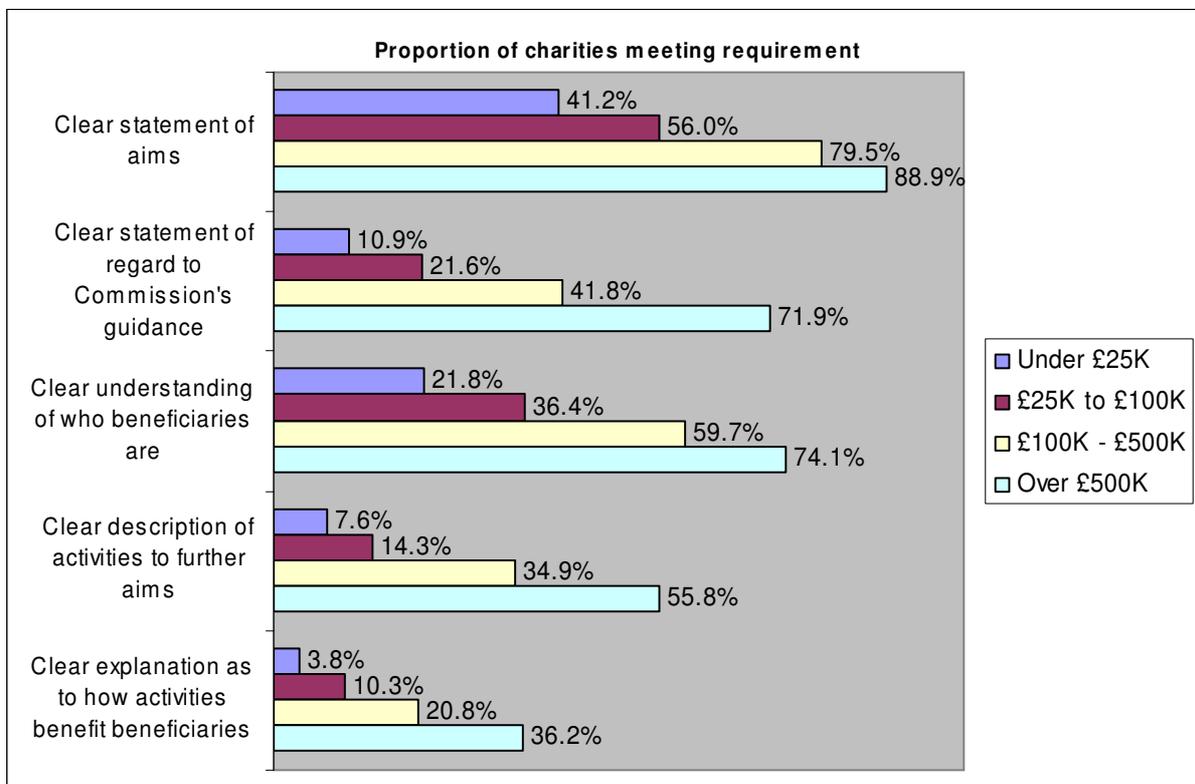
The bottom line shows the cumulative proportion which either met the requirements in full, or which appeared to address most of the legal requirements but lacked clarity or completeness in their explanations.

The top line of the table shows those offering exceptional clarity of PBR, going beyond the requirements of the regulations. These charities appeared to have thought very carefully about PBR and had drafted their TARs in ways which enabled the reader very clearly to understand the charity's activities undertaken for public benefit. Three such charities were highlighted in section 5.

6.3 The extent to which charities met the elements of PBR

Our assessment of the individual elements within the overall PBR requirement reveal that many charities met some aspects of the requirements, if not all. On every criterion, the larger charities were more likely to meet the requirement, as shown in figure 5.

Figure 5: Proportions of charities in each income band meeting each of the core elements of public benefit reporting³²



In all but the lowest band, a majority of charities provided a clear statement of aims (though this requirement pre-dates the PBR requirement introduced from 2008).

On the second PBR requirement in the regulations – providing a statement that the trustees had had regard to the Commission's guidance on the public benefit – it is only in the largest band (those over £500K) that more than half the charities made clear references to considering the Commission's guidance.

³² This table excludes the additional reporting requirements for charities over the audit threshold.

(But our work in phase 2 found that some charities had such statements in their TARs which had been inserted by accountants or by members of staff without the trustees fully understanding what they meant. In the medium and larger charities, the TARs were generally drafted by staff, sometimes with little scope for trustees to propose changes. Even amongst those who agreed to take part in phase 2 – who mostly had a high awareness of PBR – there were only a few cases where the Commission’s guidance had been discussed by the charity trustees collectively.)

Charities fared better in identifying their beneficiaries (in both the £100K to £500K band, as well as those over £500K this was clearly met by more than half) though it should be noted that for charities where the aims specifically mentioned the beneficiaries, this requirement was considered to be met without any further discussion.

The weakest result was in describing *how* the activities led to benefit for the beneficiaries – even in the largest income band we concluded that fewer than half of the TARs covered this.

6.4 Causes of Problems and Difficulties in PBR

The reasons why charities did not meet the requirements are considered further below, but in summary there appear to be four main issues:

- lack of understanding of the significance of the TAR in the first place (especially for smaller charities)
- lack of awareness of one or both of the PBR requirements
- lack of understanding in applying the PBR requirements – for example focusing on internal issues, rather than activities which advance the charity’s aims
- lack of clarity or completeness in explaining the link between the charity’s aims, activities and the benefit provided to the beneficiaries.

The TAR as a whole

We found some charities whose AR&A we reviewed provided no TAR at all or only the briefest of TARs with hardly any description of the charity’s activities in terms of carrying out the charity’s aims for public benefit.

Some of the documents considered as TARs were just headed “Chair’s Report” or similar and were clearly not reports on behalf of the charity’s trustees as a whole. Some were only draft documents, with no clear confirmation that they had been approved by the trustees (clear approval of the TAR within the 10 month period allowed under the Charities Act 1993 ranged from 20.9% of those under £25K to 70.6% of those over £500K).

Explaining the activities undertaken for public benefit

Arguably, the heart of public benefit reporting is the link between a charity's aims, activities and beneficiaries. Some charities found it hard to identify their beneficiaries, or even if they did, were unable to explain how the charity's activities led to benefit for the beneficiaries.

Some charities included more detailed TARs but with a primary focus on internal issues, or on the charity's fundraising activities, rather than focusing on activities carried out for public benefit.

Where the TAR omitted to state the charity's aims, it was very hard to consider how the activities could advance the charitable aims for public benefit.

Even though they may not have met the full PBR requirements in the regulations, we found the proportion of charities able to describe their activities in a way which showed a clear understanding of the beneficiaries ranged from 21.8% of those under £25K income to 74.1% of those over £500K³³.

However, rather fewer explained the activities in terms which showed clearly how they led to public benefit. Those offering a clear explanation of how the activities led to benefit for the beneficiaries ranged from 3.8% of those under £25K up to 36.2% of those over £500K³⁴.

Our qualitative work found that even for some charities which had agreed to meet us and talk about PBR, they did not always find it easy to draw the links between activities, beneficiaries, and benefits, especially for charities with a wide range of potential beneficiaries.

PBR compliance in different fields of charitable activity

Comparing charities in different activity areas (and focusing only on the 746 charities with a single activity recorded) we found PBR compliance was strongest amongst charities in the areas of "accommodation/housing" (19.4% meeting the full PBR requirement – i.e. those with an overall score of 4 or 5) and "medical/health/sickness" (where 18.3% did so).

The level of PBR compliance was lowest in the field of "general charitable purposes" where only 3.3% fully met the requirement – no doubt the more diffuse nature of their aims made it harder to describe clearly how those aims are carried out for public benefit. Also, it may be the case that charities in this field are less likely to have the support of umbrella organisations focusing on specific types of charitable work. (As

³³ Variable O in the Appendices.

³⁴ Variable Q in the Appendices.

explained in section 3.12, the different results for charities in different activities areas do not appear to be linked to income levels.)

6.5 The demands and impact of PBR

Our fieldwork in phase 2 identified a range of views on the PBR process. We found that, for most charities, PBR is not particularly demanding in the sense of creating extra work. Only a few of the charities with whom we spoke saw it as a significant regulatory burden. Comparing charities in phase 1 for years before and after PBR, on average there was no increase in the length of the TAR.

However, the comments from the qualitative work need to be contextualised. This is most easily done by understanding how different participants viewed the relative importance of PBR against all the compliance and risk issues facing their charities.

The public benefit requirement itself means that, from the perspective of charities' own risk assessments, PBR was of greater relative importance to some charities than to others. We found participants could be classified into those which had high, medium or low levels of concern regarding their charity's ability to meet the public benefit requirement. Understandably, those charities with high levels of concern on public benefit placed higher importance on reporting: some of them devoted very substantial effort to PBR, especially in the first year.

But this does not mean other charities saw PBR as irrelevant. We did not meet any charity in phase 2 which saw PBR as a meaningless requirement – although some did not feel PBR was sufficiently important to take up much trustees' time (especially in larger charities where the TAR was drafted almost entirely by staff).

Even for those charities which had low levels of concern on meeting the public benefit requirement, several trustees said that PBR had been a useful catalyst to look afresh at the charity's aims. It had prompted them to clarify who were their beneficiaries, and to think more clearly about their overall mission – a number of charities explicitly said that it had been a valuable process. Even those which had invested great energy into PBR because of high levels of concern around the public benefit requirement generally concluded that it had been a useful process.

So PBR is not a highly demanding requirement, but it does require a new way of looking at the TAR for trustees who have not previously viewed their charity's activities in public benefit terms.

6.6 The TAR preparation process and use of Charity Commission guidance

We found various opinions are held as to the relative importance of narrative reporting via the TAR in general, and it is important to consider how charities dealt with PBR within this wider context. The regulatory framework for charity accounting

and reporting has been placing increasing emphasis on the TAR and narrative reporting for many years, and the PBR requirement is just one element within that.

However, the varying quality of TARs we reviewed suggests that many charities have yet to realise their importance. But this is not necessarily a PBR issue – where charities which were failing to address the requirements for TARs which applied even prior to the 2008 Regulations it is hardly surprising if they did not meet the requirements of PBR. In the qualitative work we found some charities had devoted considerable time and energy to the production of a non-statutory “Annual Review” and had not fully appreciated the importance of reporting in the TAR.

Yet we found ample evidence of charities which placed great importance on the TAR – not just as a matter of compliance, but in terms of explaining the charity’s work to funders and other stakeholders.

We found many different approaches to the process of preparing the TAR. Except in the smallest charities, it is normal for staff to have a substantial role in helping to draft the TAR. In a few cases TARs were prepared by external advisers (typically auditors or independent examiners).

We found that the Charity Commission’s electronic newsletter was an important way of people finding out about PBR, but many of the phase 2 interviewees were so well networked that they had heard about PBR from multiple sources. However, those we met were in many cases leaders in terms of their understanding and willingness to comply with issues of charity regulation. From the desk-based research in phase 1 it appears that many charities were completely unaware of the PBR requirement.

However, we also found in phase 2 that some trustees had become aware of the issue of ‘public benefit reporting’ in general terms, but had not actually consulted the Commission’s guidance (as they are required to do under the 2006 Act). Based on the quality of PBR identified in phase 1, this issue appears to be widespread. Even amongst those who thought they were fully meeting the PBR requirement, we found a number of instances where trustees had no awareness that the Commission had issued formal guidance (PB1) which they should have considered.

The level of use of the Commission’s guidance varied widely. Overall, in phase 1, 39.9% of the charities in our sample had a clear statement in their TAR stating that the trustees had considered the guidance, but as we found in phase 2, sometimes the only consideration had been by an external adviser who suggested including the relevant phrase.

In other cases, public benefit issues had been discussed by trustees in some detail. All the charities in phase 2 with high concern on the public benefit requirement had studied the Commission’s guidance and they all made reference to the Commission’s sub-principles contained within the guidance in preparing their TARs. But we found that these charities sometimes seemed more concerned with complying with the

commonly accepted norms of their sectors, rather than complying with the guidance *per se*.

We also found that for many charities, whatever their level of concern on public benefit, it was the practical implementation and commonly accepted interpretation of the guidance that was important to them, not the guidance itself.

A few charities had made use of the Commission's example TARs, to help them address PBR. This was generally amongst the trustees and staff who could be considered as 'charity professionals', working with a wide range of charities and regularly using the Commission's website.

Independent examiners and auditors have played an important role in making charities aware of PBR. On almost all the requirements we assessed, charities over the £25K independent examination threshold were more likely to meet the PBR requirement than those below this level, and charities over the £500K audit threshold showed the highest levels of compliance. But even amongst the latter, we found that just 25.7% fully met the PBR requirements in the 2008 Regulations (though 67.2% did so or came close).

Several charities also spoke of the valuable support they had received from umbrella bodies in the sector in helping them meet the PBR requirement. This applied both to those who perceived the public benefit requirement as an issue of high concern, and to others for whom it was a low concern.

A number of charities keen to address PBR effectively also stressed the importance of completing the TARs and accounts on a timely basis. One trustee commented, *'the longer you leave it, the harder it is to get the information together'*.

6.7 Fee-charging and restrictions on who can benefit

Much of the popular debate on public benefit and charities has been linked to the issue of fee-charging. No one said this explicitly, but we gained a sense that some charities were saying: 'We don't charge fees, so there are no public benefit issues for us, so public benefit reporting doesn't really need us to do anything.'

The idea that the requirements of public benefit reporting only applies to fee-charging charities is a fundamental misunderstanding. Even for charities where no fees are charged, PBR requires the trustees to explain who are the beneficiaries, how they are selected (if applicable) and how the activities led to benefit.

But even amongst charities making charges for their activities, and where these charges fell within the Commission's definition of cases where fee-charging is a public benefit issue, we found many trustees had never considered referring in detail to the Commission's guidance on the public benefit requirement. Sub-principles 2b(ii) and 2c in the guidance, regarding the affordability of the charity's services, are

particularly relevant. Some of these charities were charging for goods (e.g. furniture) rather than services, but the same principles apply.

Overall, from the desk-based work in phase 1, it appeared that around half of charities make some sort of significant fees or charges for services provided to beneficiaries (although there is no explicit requirement to disclose fee-charging as such either in the TAR or in the accounts, so we could not always be certain). However, this does not mean the beneficiaries themselves had to pay the fees – many charities were able to secure fee income from statutory or other sources.

Fee-charging for beneficiary services was a little more common in larger charities, but it applied across charities in all income bands. But we found only around a third of these fee-charging charities³⁵ included any discussion in the TAR of any steps taken to ensure the fees did not lead to undue restrictions on those who could benefit – i.e. in response to principle 2b(ii) in the Commission's guidance (restrictions on benefit due to the ability to pay any fees charged).

There is, of course, no *explicit* requirement in the 2008 Regulations for trustees to address such issues in the TAR. But if trustees had considered the Commission's guidance – and especially the suggested questions which the Commission encourages trustees to address (see box on p.23) – it seems curious that relatively few chose to comment in their TAR about affordability and access when explaining how the activities were carried out for public benefit. Even where funding had been secured from other reliable sources so that beneficiaries or their families did not have to pay fees personally, one might have expected more comments in the TAR explaining this.

We found in phase 2 that the possible impact of fee-charging in terms of who could benefit was well appreciated by the few charities for whom public benefit was a high-concern issue, but there were many other fee-charging charities where the trustees had not grasped that the Commission's guidance on fee-charging might be applicable.

6.8 Summary

This study sought to assess the extent to which trustees have fulfilled their duties of public benefit reporting and to explore the quality of their public benefit reporting.

The findings from phase 1 – summarised in figure 5 above – provide a vast range of information in answer to the first aim. The short answer is that most charities have made a start towards PBR in the first year in which PBR applied (and in some cases made further progress in a second year) – but the majority still have a considerable way to go to meet the full requirements of the regulations. However, phase 1 also revealed some excellent instances of PBR.

³⁵ See detailed discussion in section 3.11.

On the second aim, we found in phase 2 that the quality of public benefit reporting is not simply a matter of what gets included in a TAR, but what those words actually mean to the trustees concerned. Even amongst those trustees or staff who were sufficiently informed to agree to take part in our interviews and focus groups, we found several cases of misunderstanding, and a number of cases, even in large charities, where the trustees themselves had no direct understanding of the Commission's guidance.

But we found others who were passionate about the quality of their TARs and saw them as central to the mission of their charities: not just in terms of regulatory compliance, but at a much more profound level. For these trustees, the TAR was a vital tool in explaining the charity's work to external parties, and so it was only natural that they wanted to discuss the activities in relation to those who would benefit. In these cases, clear reporting on public benefit was at the heart of their trustees' report, without any need for regulations.

Appendix A: The Research Design – Phase 1: The Desk-Based Study of Trustees' Annual Reports for 1402 Charities

A.1 The Sample

Phase 1 of this research comprised a desk review of the TARs of a substantial sample of registered charities. In total 1402 charities were included in the review, and for 140 of these a second year's TAR was examined to see if there were any major changes in PBR from one year to another, so in total 1542 charity TARs were reviewed³⁶.

There were 151,929 main charities on the Charity Commission register at the commencement of the study, so by reviewing 1402 charities we considered 0.92% of all registered charities.

However, the sampling was not based on a random selection across the whole register of charities, as this would have resulted in very large numbers of small charities and relatively few larger ones. Only 6% of charities on the register are over the £500K income level where an audit is required, but they account for 89% of all charity income³⁷, and, as explained, these auditable charities are subject to slightly more onerous PBR requirements under the 2008 Regulations. So it was important to ensure a reasonable number of larger charities in this band were included.

The charities for phase 1 were thus chosen based on random samples of registered charities within four income bands:

- (a) Over £500K income
- (b) £100K - £500K income
- (c) £25K - £100K income
- (d) £5K - £25K income

The boundaries of these bands were selected to tie up with thresholds in Charities Act 1993 as amended:

- above £5K income, most E&W charities are required to register with the Commission³⁸

³⁶ Not all charities in England and Wales are required to be registered with the Charity Commission, but all are subject to the public benefit requirement in the 2006 Act. However, exempt and excepted charities are not required to produce a TAR under s.45 of the 1993 Act and hence are not subject to the public benefit reporting requirement, so this study was limited to registered charities.

³⁷ www.charitycommission.gov.uk/About_us/About_charities/factfigures.aspx

³⁸ A higher registration threshold of £100K applies to charities in certain sectors which were formerly excepted from registration: this includes many churches and also armed forces charities.

- above £25K income the accounts must be subject to external scrutiny at least in the form of an independent examination, and for registered charities, the AR&A must be submitted to the Commission
- for financial years commencing 1 April 2008 and earlier, the accounts of charities over £100K had to be on an accruals basis, complying with the Charities SORP (below this, the accounts can generally be on a receipts and payments basis for charities not structured as companies)³⁹
- above £500K the accounts must be subject to a full audit (rather than an independent examination) and the TAR must also contain additional information.

Charities over £25K income – i.e. those in bands (a) to (c) – are required to file their Annual Report and Accounts (AR&A) each year with the Charity Commission, and the Commission makes these available on line. However, despite the Commission’s efforts to encourage all charities over £25K income to file their AR&A promptly as required by law, some charities fail to do so and it was clearly not possible to include charities which had not filed accounts.

So, for bands (a) to (c), the population was limited to *charities in these bands which had filed an AR&A for a year which began on or after 1 April 2008* (i.e. for year where the PBR requirement was applicable). In these cases it was possible for the research team to obtain the TARs by downloading the AR&A directly from the Commission’s website.

It was intended to sample around 400 charities in each of bands (a) to (c) and a smaller number in band (d). In a number of cases the charity’s income had changed between the date of the extract from the register and the latest accounts considered – all analysis in this report is based on the *actual figure for total income as shown in the accounts* filed with the TAR being analysed. Of the 1200 charities initially selected in these bands which had filed an AR&A for a year starting on or after 1 April 2008, six cases were found where the latest AR&A was unusable – e.g. due to corrupted PDF files, or cases where information filed with the Commission related to another charity. Also, a number had changed income band since the initial extract. The result was that 1191 charities were included in the study in band (a) to (c).

For the study to assess the full impact of the PBR requirement, it was important also to include registered charities whose income was £25K or less, as they are still required under the 1993 Act and the 2008 Regulations to prepare a TAR and Annual Accounts. For such charities the AR&A must be made available to anyone on request, and the TAR must comply with the PBR requirement, even though the AR&A do not generally have to be submitted to the Commission. (However, no charities

³⁹ This R&P upper limit was increased from £100K to £250K for financial years ending April 2009 onwards, but charities are only gradually adjusting to the new limit, so it was felt £100K was a suitable boundary for this study.

were selected whose last recorded income was under £5K, given that it is not compulsory for them to be registered as charities.)

For band (d) a random selection of 400 charities with last recorded income between £5K and £25K was thus selected as a starting point. It was found that of these, 78 (19.5%) had in fact filed accounts with the Commission for a year commencing on or after 1 April 2008, even though it was not now compulsory to do so (some of these related to years ending 31 March 2009 when the filing limit was £10K, but many had simply filed accounts voluntarily). Of these, 76 were usable. Letters were sent to the remaining 322 charities with a reply-paid envelope asking them to send in their AR&A for the latest available year – the letter explained the purpose of the research and also set out the statutory requirement to provide the AR&A to any person on request. Of these, 135 (42%) provided a usable AR&A in time for the researchers' deadline⁴⁰. This gave a total of 211 charities in band (d) of the study.

The final sample of charities in each band was thus as follows.

Income Band	Total registered charities in band	Total number which had filed AR&A for a year starting April 2008 or later	Percent which had filed a relevant AR&A⁴¹	Actual number of charities in the study included in each band	Percent of registered charities in band included in the study
(a) Over £500K	9,578	7,710	80.5%	398	4.2%
(b) £100K - £500K	17,278	12,639	73.2%	395	2.3%
(c) £25K - £100K	27,199	19,144	70.4%	398	1.5%
(d) £5K - £25K	97,874 ⁴²	N/a	N/a	211	0.2%
Totals	151,929	N/a	N/a	1402	0.9%

Across all 1402 charities in the sample, the mean income was £1.53M and the median income was £138K. So the objective was met of giving some weight to medium and larger charities, but still considering charities across the full income range.

⁴⁰ The initial deadline was extended due to poor weather affecting postal deliveries. Even so, approximately 35 more responded after the revised deadline, either by sending their AR&A or offering to send it if required.

⁴¹ The extract from the register used to select charities for this study was made on 30 Sept 2010, but even though this was 2½ years after the PBR requirement took effect (from 1 April 2008) a few charities with certain year ends would not necessarily have been obliged by then to submit an AR&A for a year subject to PBR. For example, taking an extreme case, a charity with a February year end was only required to apply PBR with effect from its financial year 1.3.2009-28.2.2010 and allowing 10 months from year end for submission of the AR&A to the Commission (as permitted by the 1993 Act), the AR&A for that year could be filed as late as 31 Dec 2010 without being overdue.

⁴² This is the figure for all registered charities with £0 - £25,000 income – not just those over £5,000 income.

A.2 Analysis of Individual TARs

The individual TARs for each charity – whether obtained from the online register of charities, or directly from the charity – were analysed by a team of eight Research Associates (RAs), using a structured framework.

All of the RAs recruited had considerable experience in analysis of written data, and some previous knowledge of charities. They received two full days training in the principles of public benefit reporting and the techniques of the study, and were provided with a framework under which 26 variables were recorded for each charity.

The analysis was divided into phases, most phases being two weeks, over the period November 2010 – January 2011. To prevent boredom or lack of focus, no RA considered more than 40 TARs in each phase of the main analysis. Various cross-checks were incorporated into the process including “hot review” by the academic staff leading the project, regular team meetings and discussion of scores, to ensure a high level of consistency between the scores of the various RAs.

It was recognised at the outset that not all TARs would be in English – though strictly speaking under the laws of England and Wales any official document such as a TAR should only be in English or Welsh. Two of the 1402 TARs were found to be in Welsh: these were translated into English by the Commission’s translation service and then analysed by the team. One TAR was in German, and this was handled directly by one of the RAs on the team.

A.3 The Analysis Framework

The following variables were recorded for each charity. Variables A – D were pre-completed from the selected sample data from the register of charities, and variables E – Z were added by the researchers following analysis of each AR&A.

See Appendix C for tabulation of the findings.

Some of the variables were yes/no tests or alternate choices or simply asked for factual information, but in many cases the framework used a *quality judgement* to assess how far the relevant PBR requirement was met. On each variable where a quality judgement was needed, specific scoring criteria were used, but in the majority of cases the scoring guidance to researchers was as follows:

Quality judgements are scored on a scale 0-4.

- 4: *If you judge that this issue is fully described with clarity, meeting all the requirements from the Regulations, record 4 (this does not mean it is perfect, but it clearly meets the essential requirements).*
- 3: *Score 3 if the TAR almost addresses what is needed, but where the wording is perhaps unclear.*

- 2: Score 2 if the TAR makes a serious attempt at the requirement but falls well short of what is needed.
- 1: Score 1 if some attempt is made to address the requirement, but it falls well short of what is needed under the Regulations.
- 0: If the TAR offers nothing for the requirement, record 0.

A.3.1 Factual Data from the Register of Charities

- A Registered charity number.
- B Charity's legal name.
- C Last year end as on Charity Commission register.
- D Total income for last year as on Charity Commission register.

A.3.2 Verification of Charity Details and Provision of TAR and Accounts

An initial check was made with each TAR to ensure it tied up with the charity expected – if this did not match the charity was eliminated from the study.

In each case we focused on the TAR for the latest year available. However, in some cases a later year of AR&A had been prepared by the time the analysis took place – and hence the year end date, and the income figure could differ from the register. There were also a few cases where a charity had completed its Annual Return to the Commission but not yet filed accounts for that year and hence the TAR analysed sometimes related to a year earlier than the latest year end date on the register.

The following factual information was recorded for each TAR considered (some of the information being obtained from the Annual Accounts attached to the TAR).

- E Number of pages in the TAR (or 0 if no TAR).
- F Number of pages given to the Accounts (or 0 if no Accounts).
- G Whether the charity is *also* registered in Scotland? Record Y/N. (All charities in the study are registered charities in England and Wales).
- H Year end date for the TAR and Accounts being reviewed.

A.3.3 Factual Data from the Accounts

- I Total income as shown in the Accounts (based on the *Statement of Financial Activities* or the *Receipts and Payments Account*).

Note: In those cases where no accounts were provided, or where they were laid out in a way which gave no obvious figure for total income⁴³, the figure from the register was used (variable D) so that the charity could still be included in the analysis.

- J* Format used for presentation of the Accounts:
- Receipts and payments accounts
 - SORP accounts
 - Unclear what basis has been used for the accounts
 - No accounts included.
- K* Form of external scrutiny of the accounts:
- Audit report
 - Independent Examiner's Report
 - Reporting Accountant's Report under the Companies Acts
 - Other report – for example, this includes:
 - a report by an accountant saying “we have compiled these accounts to assist you” but without expressing an opinion or
 - reports where someone just signs their name as “auditor” or “examiner” with no declaration of opinion or
 - phrases like “examined and found correct”.
 - No independent scrutiny report.
- L* For charities which have an audit or independent examination report, we read the report to see if the opinion of the auditor or IE was qualified.

A.3.4 Charitable Aims

The first essential requirement for public benefit reporting (PBR) was for the TAR to include a statement of the aims of the charity (in a form which appeared to be drawn from the charity's governing document). It is mandatory under the Charities (Accounts and Reports) Regulations 2008 for the TAR to include “a summary description of the purposes of the charity”⁴⁴. This is not a new requirement – it was included in previous version of the Regulations. (Any clear reference to “aims”, “purposes” or “objects” was accepted if it appeared to be drawn from the charity's governing document.)

- M* Quality score (0-4) on the extent to which the TAR included a clear statement of the charitable aims.

⁴³ For example, some smaller charities provided lists of transactions or extracts from bank statements, rather than an actual receipts and payments account. See findings from variable J.

⁴⁴ 2008 Regulations – Reg.40(3)(l). References in this report to the requirements for non-parent charities, but parent charities of groups are subject to similar requirements under Reg.41.

A.3.5 Consideration of Charity Commission Guidance on Public Benefit

The statement as to whether (or not) the trustees have had regard to the Charity Commission's guidance on the public benefit requirement under s.4 of the Charities Act 2006 is mandatory. The assessment of whether or not this was included in the TAR was a key test of whether the trustees were complying with the requirements on PBR. Whilst the majority of TARs either had a clear statement of this kind (score 4) or no statement at all (score 0) there were a few ambiguous statements, so a quality score was used to allow for nuances.

N Quality score (0-4) on the statement of compliance with the Commission guidance on public benefit.

A.3.6 Beneficiaries

Whilst there is no explicit duty in the 2008 Regulations to discuss the beneficiaries of the charity in abstract, it is clearly impossible to describe the activities undertaken for public benefit without some sense of "who benefits".⁴⁵

O Quality score (0-4) on the extent to which the TAR recognises the charity's beneficiaries in describing the activities.

These points were noted for guidance of researchers when making this assessment: (i) The beneficiaries could be the public at large – if so, it is unlikely that the beneficiaries will be discussed in detail, but a score of 4 is still appropriate if the TAR makes clear that the charity is seeking to provide benefit to the public at large. (ii) The beneficiaries must be related to the aims – so mention of work which is focussed on people who are not beneficiaries was not considered. (iii) The beneficiaries must be members of the public – not other organisations and not funders or donors.

A.3.7 Description of Activities

For charities of all sizes, the TAR must include a description of the activities undertaken to further the charitable purposes for public benefit.⁴⁶

P Quality score (0-4) on the extent to which the TAR describes and explains the activities in terms of public benefit.

A.3.8 Explanation of How the Activities Lead to Benefit

Q Quality score (0-4) on the extent to which the TAR explains how the activities benefit the beneficiaries.⁴⁷

⁴⁵ This is central to Principle 2 in the Commission's guidance on the public benefit requirement (PB1).

⁴⁶ 2008 Regulations – Reg.40(2)(b).

Guidance to researchers noted that charities should not be expected to restate things which are obvious. If the beneficiaries were clearly identified earlier, and if the activities clearly benefit those intended beneficiaries, a score of 4 was allocated.

A.3.9 Additional Requirements Expected for Auditable Charities

These additional PBR statements are only required for auditable charities, but they were recorded for all charities in the study.

- R* Quality score (0-4) on the extent to which the TAR explains the charity's achievements in relation to objectives set.
- S* Quality score (0-4) on the extent to which the TAR explains the strategies adopted by the trustees to enhance or develop the charity's work in terms of public benefit.

A.3.10 Detriment

The Commission's guidance (Principle 1c) indicates that trustees must balance the benefits against any detriment or harm. Whilst there is no explicit statutory requirement to report on this, we decided to record how many TARs discussed this issue. The inclusion of such information was assessed purely as a binary variable.

- T* Whether the TAR contains any discussion of possible disbenefits (detriment) or harm which could result from the charity's work. Record Y/N. (If any such issues were mentioned researchers recorded further details in column Z.)

A.3.11 Restrictions on Beneficiaries due to Fees/Prices

A central feature of the Commission's guidance (Principle 2b) is that the ability to benefit must not be unduly restricted by restrictions such as geography or ability to pay fees charged.

Initially we sought to assess how far the TAR addressed a wide range of restrictions, but piloting of the framework indicated that this was complex to assess. Given the widespread interest in public benefit and fee-charging, it was decided to record data purely on the issue of fee-charging and whether or not the trustees discussed this in terms of possible restrictions on who could benefit from the charity.

Where it was unclear from the TAR whether or not the charity charged fees for any of its services provided to beneficiaries, researchers referred also to the accounts, but there is no requirement under the Charities SORP to identify fee income separately

⁴⁷ This links to Principle 1 "there must be an identifiable benefit or benefits" in the Commission's guidance (PB1).

so this was by no means conclusive. In the case of charities preparing R&P accounts, fees were clear in some cases (e.g. “playgroup session fees”) but in many cases it was hard to be sure. We considered material fees or charges or any kind which might in principle restrict the opportunity to benefit (e.g. cost of tickets, cost of membership, fees for courses, housing rents, medical fees, costs of travel etc).

The results of this assessment used a 0-4 scoring system, but with different meanings from previous variables. A score of 0 meant that as far as we could judge the issue was not relevant – i.e. the charity *did not appear to charge fees for services to its beneficiaries* (but for the reasons indicated it was hard to be certain in every case). A score of 1 indicated that the charity appeared to charge fees, but the TAR had not discussion of access or affordability in relation to the fees.

- U Quality score on the extent to which the TAR discusses access/affordability of the charity’s services.
- 4: Clear understanding of how any high fees charged for the charity’s services or facilities could restrict who has the opportunity to benefit from its work and TAR gave details of what the charity had done to ensure people who cannot afford those fees had sufficient opportunity to benefit.
 - 3: TAR indicated that the trustees have considered how any high fees charged for the charity’s services or facilities could restrict who has the opportunity to benefit from – but gave little or no detail in the report about what the charity had done to ensure people who cannot afford those fees have sufficient opportunity to benefit.
 - 2: Some discussion of prices in relation to affordability for service users.
 - 1: Charity appeared to make charges for its services, but with *no suggestion* in the TAR that the trustees have considered restrictions on who has the opportunity to benefit.
 - 0: Not relevant: The charity does not appear to undertake any activities where charges for services might be applicable (so issue is not relevant).

If the charity received fees or charges, we noted whether the TAR contained any explanations of how the trustees viewed any restrictions they created and any steps taken to mitigate the barriers that might otherwise arise.

- V Code indicating steps taken to mitigate barriers linked to fees or charges:
- No restriction on beneficiaries to address.
 - Zero discussion of the issue, even though charges for services were recognised in previous question.
 - Low cost or subsidised or free fees/tickets/membership offered to ensure cost is affordable (including to those in poverty) or bursaries offer to those who cannot afford the full costs.

- External funding sought (e.g. from a local authority or donors to the charity) so that those who cannot afford the fees do not have to pay or only pay a minimal amount.
- Plans discussed to provide subsidies or reduced fees in future.
- Justification of costs as being reasonable with no need for subsidies or reductions.
- Other explanations (details noted in column Z).

(If more than one of these explanations was used, researchers recorded whichever appeared most significant).

A.3.12 Private Benefits

The Commission guidance (Principle 2d)⁴⁸ indicates that any private benefits must be incidental. While there is no explicit requirement to discuss this in the TAR, it seemed that trustees following the Commission's eight sub-principles might address this, and so we recorded the number of TARs which contained any explicit mention of issues which amounted to private benefit. (The term "private benefit" may not be used directly, but researchers looked for any discussion of payments to trustees or their family members, property rented from trustees, links with businesses where trustees appear to be involved, etc. Such disclosures are compulsory in the Accounts, if prepared under SORP, but the question was whether or not these issues were mentioned in the TAR.)

W Whether the TAR mention private benefit. Record Y/N. (If any such issues are mentioned, researchers recorded further details in the column Z).

A.3.13 Approval of TAR by Trustees

The 2008 Regulations are explicit that the TAR must "be dated and signed by one or more of the charity trustees, each of whom has been authorised to do so"⁴⁹ – this was checked and scored as follows. (Researchers noted that the Commission does not require TARs filed electronically to contain original signatures, but they must at least show the date of approval and the name(s) of the person(s) who signed.)

X Quality score as follows on the approval of the TAR by trustees:

- 4: Clear statement that the trustees have approved the TAR, with name(s) of person(s) who signed, and date – not more than 10 months after year end.
- 3: Clear statement that the trustees have approved the TAR, with name(s) of person(s) who signed, and date – but date is more than 10 months after year end.

⁴⁸ See section 2.5 of this report for explanation of the Commission's principles and sub-principles in their guidance on the public benefit requirement.

⁴⁹ 2008 Regulations – Reg.40(2)(c)(iii).

- 2: Statement that the trustees have approved the TAR, with a date, but no evidence of signing.
- 1: Statement that the trustees have approved the TAR, but no date.
- 0: No statement that the trustees have approved the TAR (this includes cases where the entire document is marked “Draft” even if a date of approval is shown).

A.3.14 Overall Assessment of TAR

Bearing in mind all the issues in public benefit reporting, researchers assessed the overall quality of the TAR in relation to the requirements of public benefit reporting. (A TAR which met all the legal requirements was allocated a score of 4, but an additional score of 5 was allowed for exceptional cases.)

- Y Quality score (0-5) on the TAR as a whole in terms of how far it addresses the requirements for public benefit reporting.
 - 5: Excellent example of public benefit reporting – such that it might be highlighted as an example to other charities.
 - 4: TAR clearly addresses all public benefit reporting requirements, including reference to consideration of Commission guidance.
 - 3: On balance the TAR appears to meet legal requirements, but lacks clarity on some issues.
 - 2: TAR describes the work of the charity to some extent, and partly addresses the requirements for public benefit reporting.
 - 1: TAR is provided but with no discussion of public benefit.
 - 0: No TAR at all.

Researchers noted that a TAR does not have to refer to the individual sub-principles in the Commission’s guidance in order to receive a score of 4 (or even a 5), but the explanations must clearly describe the work of the charity in terms of public benefit, including mention that the trustees have considered the Commission’s guidance, and including discussion of detriment and restrictions on who can have the opportunity to benefit, if this is relevant. In the case of an unsigned TAR (variable X) or a TAR with no mention of the Commission’s guidance (variable N) the maximum for overall PBR quality was limited to a score of 2.

A.3.15 Other Comments

The discrete variables above were augmented with a free-format variable (Z) which was used by researchers to add further comments on particular charities, or to clarify assessments reached.

A.4 Comparison of Two Years of TARs for 140 Charities

In order to consider whether or not public benefit reporting was changing as charities gained more experience of the requirements, 140 charities (approximately 10% of those in the study) were selected for review of a TAR for a second year.

In most cases the latest year's AR&A had already been considered, so the comparator TAR was generally for an earlier year (though these second year comparisons were done at the end of the study and there were a few cases where a charity had filed a further AR&A since the original analysis).

All of the same variables and assessment criteria (as set out in section A.3 above) were used for the second year TAR. In every case, the two years of TARs for a charity were considered by the same RA.

Charities with incomes of £25,000 or less (where the AR&A are not available from the Commission's website) were excluded from the two-year comparisons.

It was initially intended to divide the 140 two year comparisons into two equal sub-groups: (i) charities which had completed two TARs for years starting on or after 1 April 2008 (since the PBR requirement took effect); and (ii) cases where a year prior to 1 April 2008 (before the PBR requirement) would be compared with a later year in order to see what changes had been made as a result of the PBR requirement coming into effect. However, by January 2011 relatively few charities had filed a second TAR⁵⁰, so more charities were selected in category (ii). The two year comparison data was thus based on:

- 111 cases comparing pre- and post-2008 (before/after PBR)
- 29 cases comparing two post-2008 years (both within PBR)⁵¹.

The findings from this are presented in Appendix D.

⁵⁰ At the conclusion of this phase of the study (mid-January 2011) no charity was actually *required* to have filed two years of TARs since the PBR requirements took effect from years commencing 1 April 2008. Even for a charity with a 31 March year (the first ones to be affected) the trustees would have filed their AR&A for the year ending 31 March 2009 by 31 January 2010, but second year of PBR - the AR&A for the year ending 31 March 2010 - did not have to reach the Commission until 31 January 2011. For charities with other year ends, the deadline could be much later. See footnote⁴¹ on page 75 for further details.

⁵¹ Not all RAs worked on the two-year comparisons, and those who did were asked to consider only charities where they had already assessed one TAR (excluding those under £25,000 income) so these 29 cases were identified from a potential pool of approximately 360 charities.

Appendix B: The Research Design – Phase 2: Focus Groups and Telephone Interviews with Trustees and Others

B.1 Charities Invited – Organisation of the Groups and Interviews

In order to explore the practical issues which trustees faced in addressing their public benefit reporting (PBR) duties, it was essential to speak to a range of charities in some depth about the process.

It was considered that the most effective research tool to gain in depth comments from charities on these issues was by use of focus groups in which trustees (or staff if necessary) from a number of charities could come together to discuss their experiences of PBR. In particular, we wished to ask whether PBR had affected the process by which charities prepare their TARs, whether it had created extra work, and we wished to explore how far PBR had created specific challenges for charities to address. Focus groups represented a good use of researchers' time in allowing face to face meetings with a number of charities together, and also offered the potential for further insights as charities responded to one another's experiences.

It was felt, however, that there was little to be gained from inviting charities where the TAR showed little or no attempt to comply with PBR, but it was also important to include the experiences of charities of all sizes and in different parts of the country. Focus groups were therefore planned in four locations: London, North-East England, the West Midlands and South Wales (although there was insufficient response to proceed with the latter). For the focus groups outside London, a contribution of £10 per charity was offered towards travel expenses.

A total of 166 charities were selected from Phase 1 which appeared to have dealt reasonably well with the PBR requirement⁵² and where the charity was located within a reasonable distance of one of the planned groups.⁵³ They were contacted by letter with an invitation for a suitable trustee to attend a focus group discussion, with representatives from other charities⁵⁴.

⁵² This was based mainly on the score received in Phase 1 against variable Y "Overall quality of TAR in terms of PBR", but recognising that larger charities generally gained higher scores, an adjustment was made to allow for the income bands. However, it was found that because of the large numbers of charities located in London and the South East, a disproportionate number of charities would have been invited to the London groups if the same score threshold had been used for all invitations. Hence, the final list of the 166 charities invited to take part in phase 2 was based on different scoring thresholds in different areas. As a consequence, the level of understanding of PBR differed considerably between the different groups and the telephone interview participants.

⁵³ The only location data available was the address of the charity correspondent, as recorded on the register of charities.

⁵⁴ Of the 166 charities selected, 38 (23%) had no e-mail address recorded with the Charity Commission, so it was felt essential to send the initial invitations by post.

It was recognised that trustees, staff, professional advisers and others are all potentially involved in preparing TARs, but because the ultimate responsibility for TAR approval rests with trustees, the initial invitation was restricted to trustees. However, a number of charities made contact to say that no trustee had sufficient detailed involvement in the process of drafting the TAR to comment effectively, and, following discussion with the Charity Commission, it was agreed to extend the invitation to members of staff where trustees specifically requested a member of staff to attend on their behalf. (However, charities were not allowed to send an external professional such as their auditor or independent examiner.) Where an e-mail address was held, a follow-up invitation by e-mail was sent on these lines.

Due to the research timetable, some of the focus groups had to be arranged at relatively short notice, and it became clear that a number of charities were keen to support the study but could not attend any of the groups. It was thus agreed to supplement the focus group discussions with a number of telephone interviews. A further e-mail follow up message was sent indicating this possibility to those charities in the 166 sample which had not responded to either of the initial invitations, or which had sent apologies.

Charities were invited to send up to two trustees (or a trustee and a member of staff) to the focus groups, and in a small number of cases the telephone interviews led to discussions with a second person. In total we spoke to 33 persons, representing 30 distinct charities sharing their experiences of PBR (16 through focus groups and 14 through telephone interviews). Four focus groups took place: two in London, one in North-East England and one in the West Midlands.

It should be noted that the participants were not drawn from a random selection of charities: the invitations were based on charities which had already achieved some progress in PBR, and within that, those who accepted the invitation were naturally from charities or individuals which had some interest in the issue.

All the focus groups and telephone interviews were facilitated directly by the project leaders, and the participants were thus able to speak directly with researchers with wide experience in charity accounting and reporting. The duration of the focus groups was typically just under two hours, and the telephone interviews just under 30 minutes each, so we were able to explore the issues in some depth with each charity in this phase.

Participants were assured that no charity would be individually identified as a result of the discussions, unless they gave explicit permission to be identified. They were encouraged therefore to speak frankly.

B.2 Discussion Framework Used

Both the focus groups and telephone interviews were conducted as semi-structured discussions, with the researcher proposing broad questions, and allowing participants to respond freely as they wished. Supplementary questions were used as necessary to probe for further detail or to invite participants to explain the reasoning behind their comments.

The main questions were as follows.

1. Welcome/Explanation

Today's session is a chance to explore some of the practical issues which charities have faced in addressing the new "public benefit reporting requirement". This is where charities have to explain in their Trustees' Annual Reports how the organisation is carrying out its charitable aims for public benefit.

2. Introduction of Participants (Focus groups only)

3. Process of Preparing TARs

How is the TAR prepared in your charity - who writes what, and how far are staff or advisers involved?

4. How they learned of the Public Benefit Reporting Requirement

As I mentioned, this new requirement came in from 2009 year ends to talk about how the charity carries out its aims for the "public benefit" in the trustees' report. Have you heard about this? If so, do you recall how did you find out?

5. Addressing PBR in the TAR

Who are the beneficiaries in your charity and what are you trying to do for them? When you came to put together your first trustees' report which had to include public benefit issues, did you do anything different?

6. Use of Commission Guidance

Has anyone here actually read the Charity Commission Guidance on the Public Benefit Requirement? (At the focus groups the facilitator had a copy of the guidance booklet PB1 to show to participants.)

Prompts were asked to establish the level of use and (where applicable) use of supplementary guidance from the Commission:

- *Was it just you that read it? Did other trustees look at it too?*
- *Did you find it helpful?*
- *Did you use any of the Charity Commission's supplementary guidance on public benefit for specific types of charities – e.g. education, religion, etc?*
- *Did you look at any of the sample Trustees' Reports on the Charity Commission website?*

7. Mentioning of the Commission Guidance in the TAR

You may recall that one of the new rules is that you have to say in the Trustees' Report whether or not the trustees have "had regard" to the Charity Commission's Guidance on Public Benefit. Did you do this?

If so, what did it amount to in practice, when you say you "had regard to the guidance".

8. Use of Commission's Eight Principles

Those of you who have seen this guidance [PB1] will be aware that the Charity Commission sets out two principles with a total of 8 sub-principles on factors that a charity should consider in meeting the public benefit requirement. Did any of you use these issues directly in deciding what to put in your Trustees' Report?

9. Special Issues

Did any of you have to consider issues like charging fees, or benefits to trustees which might have meant problems in terms of the public benefit? Or were there any issues of possible disbenefit⁵⁵ or harm linked to what you do? If so, what did you decide to say in the Trustees' Report on these issues?

10. Other Points

Does anyone have any other comments about the issues involved in putting together their TAR and dealing with public benefit reporting in particular?

Has the process of public benefit reporting been helpful to the charity in terms of thinking about benefits and impact of the charity's work?

Do you have any positive suggestions of how the requirements for public benefit reporting can be explained to charities?

⁵⁵ The term "disbenefit" was used with interviewees to reflect the issue of "detriment" in the Commission's guidance.

B.3 Summary of Participants

An analysis of the charities represented in the focus group and telephone interview stage is set out below. To maintain anonymity, we simply give the income band of the charities which took part, and a rough indication of their fields of work. (Unless otherwise indicated there was just one charity in each box below.)

Charities with £5K - £25K income		
None ⁵⁶		
Charities with £25K - £100K income		
International relations	Arts	
Charities with £100K - £500K income		
Rural umbrella organisation	Relief of poverty x2	Almshouse
Social care x3	Religious x2	Medical
Support and advice	Arts	Poverty awareness
Charities with over £500K income		
Medical grant-maker x2	Independent school x2	Social care
Industry specific training	Religious x3	Rural
General grant-maker	Environmental education	Wildlife / conservation
Hospice x2		

The individuals participating were as follows:

- 23 trustees and 10 charity staff took part, representing a total of 30 charities.

Of these:

- 13 trustees and five charity staff attended four focus groups;
- 10 trustees and five charity staff were interviewed by telephone.

⁵⁶ Although 19 of the 166 charities invited to take part in this phase had incomes under £25K, none of them agreed to take part in either the focus groups or the telephone interviews. However, only six of these 19 had public e-mail addresses – so whilst all 19 were sent the initial invitation by post, only six would have received the e-mail follow-ups.

Appendix C: Detailed Findings from Phase 1: Meeting the PBR Requirements

C.1 Introduction

This Appendix provides tabulations (without comment) on the main variables used in the desk-based assessment of the 1402 charities in Phase 1.

See Appendix A for details of the selection criteria for the charities considered including numbers of charities in each income band.

The variables recorded for each charity are identified by letters (A – Z): details of the use of each variable is explained in Appendix A.

In sections C.2 to C.5 the results are presented cross-tabulated by the charity income bands. Percentages are within income bands except in the “Total” column. A blank in a table signifies a value of zero. Section C.6 gives further analysis of some of the variables, cross-tabulated by the type of charity (area of activity).

All figures are individually rounded in the tables to the nearest 0.1% so for this reason percentages may not total to exactly 100%.

Figures in the columns headed “All” relate to all 1402 charities in our sample, but, as explained, this is not a random sample across the entire register of charities, because larger charities are represented proportionately more frequently than smaller ones.

C.2 Factual Data on the TARs and Accounts Reviewed

E NUMBER OF PAGES IN THE TAR

	Income Band				All
	Up to £25K	£25K to £100K	£100K to £500K	Over £500K	
No TAR	29.4%	11.8%	4.1%		8.9%
1-2 Pages	38.4%	34.4%	12.2%	2.0%	19.5%
3-6 Pages	25.6%	47.5%	63.5%	41.5%	47.0%
7-12 Pages	6.2%	4.8%	16.2%	41.7%	18.7%
More than 12 pages	.5%	1.5%	4.1%	14.8%	5.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

The mean across all 1402 charities (including the 8.9% with a missing TAR i.e. 0 pages) was 5.1 pages of TAR. (For consistency, statistics elsewhere on lengths of TARs includes those charities submitting 0 pages of TAR – we do not class them as non-filers if they provided an AR&A of some kind.) But excluding those with no TAR, the mean length of TAR provided was 5.6 pages – however, see section A.3.2 above regarding the minimum documentation which was classed as a TAR of some kind.

F NUMBER OF PAGES IN THE ACCOUNTS

	Income Band				All
	Up to £25K	£25K to £100K	£100K to £500K	Over £500K	
No Accounts	1.9%	.5%	.8%		.6%
1-2 Pages	50.7%	33.9%	6.8%	.3%	19.3%
3-6 Pages	42.2%	47.7%	31.9%	9.3%	31.5%
7-12 Pages	4.3%	16.6%	50.4%	49.2%	33.5%
More than 12 pages	.9%	1.3%	10.1%	41.2%	15.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

The mean across all 1402 charities (including those with no accounts) was 7.4 pages of accounts.

G CHARITIES REGISTERED IN SCOTLAND (AS WELL AS IN E&W)

	Income Band				All
	Up to £25K	£25K to £100K	£100K to £500K	Over £500K	
Not regd in Scotland	100.0%	100.0%	99.2%	94.2%	98.1%
Regd in Scotland			.8%	5.8%	1.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

J ACCOUNTS FORMAT USED

	Income Band				All
	Up to £25K	£25K to £100K	£100K to £500K	Over £500K	
No accounts included	1.9%	.8%	.8%	.3%	.8%
Receipts and Payments accounts	50.2%	44.5%	9.4%		22.8%
SORP accounts	22.7%	42.0%	85.6%	98.7%	67.5%
Unclear what basis has been used for accounts	25.1%	12.8%	4.3%	1.0%	8.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

K EXTERNAL SCRUTINY OF THE ACCOUNTS

	Income Band				All
	Up to £25K	£25K to £100K	£100K to £500K	Over £500K	
Audit report	2.4%	7.8%	35.4%	97.0%	40.1%
Independent Examiner's Report	38.9%	60.8%	53.7%	2.8%	39.0%
No independent scrutiny report	41.2%	22.6%	6.1%	.3%	14.4%
Other report	13.3%	8.3%	2.8%		5.1%
Reporting Accountant's Report under the Companies Act	4.3%	.5%	2.0%		1.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

L QUALIFIED ACCOUNTS SCRUTINY REPORTS

	Income Band				All
	Up to £25K	£25K to £100K	£100K to £500K	Over £500K	
Not applicable (no IE or audit)	54.0%	29.4%	8.9%	.8%	19.2%
Qualified report	.5%	.3%	.5%	1.8%	.8%
Unqualified report	45.5%	70.4%	90.6%	97.5%	80.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

C.3 Public Benefit Reporting – Key Variables Applicable to All Charities

M QUALITY SCORE ON THE EXTENT TO WHICH THE TAR INCLUDES A CLEAR STATEMENT OF CHARITABLE AIMS

	Income Band				All
	Up to £25K	£25K to £100K	£100K to £500K	Over £500K	
No statement of charitable aims*	36.5%	25.6%	7.6%	1.0%	15.2%
Some references to aim but probably not the actual objects	9.5%	5.5%	2.0%	1.0%	3.9%
Vague or unclear statement of aims	7.1%	5.8%	3.5%	3.0%	4.6%
Some statement of aims but probably not the exact wording	5.7%	7.0%	7.3%	6.0%	6.6%
Clear and unambiguous statement of aims which appears to be based on governing document	41.2%	56.0%	79.5%	88.9%	69.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

*The category “no statement” includes charities with no TAR at all (and similarly in relation to subsequent variables).

N QUALITY SCORE ON THE EXTENT TO WHICH THE TAR INCLUDES A CLEAR STATEMENT CONFIRMING THAT THE TRUSTEES HAVE HAD REGARD TO THE CHARITY COMMISSION'S GUIDANCE ON THE PUBLIC BENEFIT REQUIREMENT

	Income Band				All
	Up to £25K	£25K to £100K	£100K to £500K	Over £500K	
No statement at all of compliance with CC guidance	83.4%	71.9%	47.3%	15.1%	50.6%
Some vague hint to suggest the trustees may have some awareness of PB in terms of CC guidance	4.3%	4.3%	5.3%	5.3%	4.9%
No direct statement but evidence referring to a number of CC sub-principles	.9%	.8%	3.0%	3.8%	2.3%
No clear statement but vague phrases such as taking account of CC guidance	.5%	1.5%	2.5%	4.0%	2.4%
Clear statement the trustees have had regard to the CC's guidance on PB	10.9%	21.6%	41.8%	71.9%	39.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

O QUALITY SCORE ON THE EXTENT TO WHICH THE TAR RECOGNISES THE CHARITY'S BENEFICIARIES IN DESCRIBING THE ACTIVITIES.

	Income Band				All
	Up to £25K	£25K to £100K	£100K to £500K	Over £500K	
No recognition of who are the charity's beneficiaries	40.3%	23.4%	10.6%	2.8%	16.5%
Weak indication that trustees are aware of who the beneficiaries are when describing the charity's activities	10.4%	14.1%	5.6%	4.0%	8.3%
Moderate indication that trustees are aware of who the beneficiaries are when describing the charity's activities	15.2%	10.6%	9.4%	6.0%	9.6%
Strong indication that trustees are aware of who the beneficiaries are when describing the charity's activities	12.3%	15.6%	14.7%	13.1%	14.1%
Clear understanding of who charity's aims seek to benefit	21.8%	36.4%	59.7%	74.1%	51.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

P QUALITY SCORE ON THE EXTENT TO WHICH THE TAR DESCRIBES AND EXPLAINS THE ACTIVITIES IN TERMS OF PUBLIC BENEFIT

	Income Band				All
	Up to £25K	£25K to £100K	£100K to £500K	Over £500K	
No description at all of activities	36.5%	22.4%	10.1%	2.0%	15.3%
Some description of activities but no reference to benefits to the public	15.6%	22.1%	13.2%	7.3%	14.4%
Some explanation of the activities in terms which appear to imply PB	28.4%	26.1%	19.0%	15.1%	21.3%
Clear explanation of the activities with some recognition of how they are for PB	11.8%	15.1%	22.8%	19.8%	18.1%
Clear explanation of the activities, showing how activities carry out the charity's aims for the PB	7.6%	14.3%	34.9%	55.8%	30.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Q QUALITY SCORE ON THE EXTENT TO WHICH THE TAR EXPLAINS HOW THE ACTIVITIES BENEFIT THE BENEFICIARIES

	Income Band				All
	Up to £25K	£25K to £100K	£100K to £500K	Over £500K	
No description at all of the benefit arising from activities	57.3%	45.2%	22.0%	8.0%	30.0%
Benefit of charity's activities only described in terms of those the charity works with directly	10.9%	13.6%	12.4%	10.1%	11.8%
A vague explanation which hints at how the activities could benefit the beneficiaries	19.9%	20.6%	23.3%	17.3%	20.3%
Activities discussed in relation to beneficiaries at a general level but without full clarity	8.1%	10.3%	21.5%	28.4%	18.3%
Clear explanation of how activities lead to benefit for intended beneficiaries	3.8%	10.3%	20.8%	36.2%	19.6%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

C.4 Public Benefit Reporting - Additional Requirements for Auditable Charities

Note: To permit comparability of data with other variables, this additional information was collected for *all* charities in the study and is analysed by income bands as above.

However, there is no requirement for charities to provide this information if they are not subject to audit. Hence, those cases where this information was provided by charities below £500K income⁵⁷ indicates that they had gone beyond the minimum PBR requirements applicable to such charities.

R QUALITY SCORE ON THE EXTENT TO WHICH THE TAR EXPLAINS THE CHARITY'S ACHIEVEMENTS IN RELATION TO OBJECTIVES SET

	Income Band				All
	Up to £25K	£25K to £100K	£100K to £500K	Over £500K	
No description at all of achievements against targets or objectives for the year	53.6%	41.2%	23.8%	6.8%	28.4%
Some discussion of achievements, but unrelated to charity's PB	19.4%	23.6%	21.0%	12.1%	19.0%
Some discussion of specific achievements relevant to the beneficiaries; not against objectives	22.7%	27.4%	34.9%	40.2%	32.5%
Some explanation of achievements against objectives	3.3%	6.8%	14.2%	20.9%	12.3%
Clear explanation of objectives set at the start of the year and measuring the charity's achievements against them	.9%	1.0%	6.1%	20.1%	7.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

⁵⁷ It is possible that a few of the charities below £500K income were subject to audit due to the assets threshold (see Appendix E).

S QUALITY SCORE ON THE EXTENT TO WHICH THE TAR EXPLAINS THE STRATEGIES ADOPTED BY THE TRUSTEES TO ENHANCE OR DEVELOP THE CHARITY'S WORK IN TERMS OF PUBLIC BENEFIT.

	Income Band				All
	Up to £25K	£25K to £100K	£100K to £500K	Over £500K	
No discussion of future strategy	81.0%	71.4%	44.4%	15.6%	49.4%
Vaguely or in passing	11.4%	15.6%	19.5%	14.6%	15.8%
addresses future strategies but only loosely linked to PB					
Some indication of future strategies but only loosely linked to PB	4.3%	7.0%	15.7%	21.1%	13.1%
Fairly clear explanation of future strategies but only loosely linked to PB	2.4%	3.8%	11.4%	21.9%	10.8%
Clear explanation of the future strategy linked to public benefit	.9%	2.3%	8.9%	26.9%	10.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

C.5 Public Benefit Reporting – Detriment and Restrictions on Beneficiaries

As explained in section 2, there is no explicit requirement in the 2008 Regulations for charities to report on these issues. However, the Commission's guidance (PB1) indicates that these issues should be addressed in TARs where applicable.

T WHETHER THE TAR INCLUDES ANY DISCUSSION OF POSSIBLE DETRIMENT OR HARM WHICH COULD ARISE FROM THE CHARITY'S WORK

	Income Band				All
	Up to £25K	£25K to £100K	£100K to £500K	Over £500K	
No mention of harm or detriment	99.5%	99.0%	99.7%	97.5%	98.9%
Detriment mentioned	.5%	1.0%	.3%	2.5%	1.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

U FEE-CHARGING – EXTENT TO WHICH THE TAR DISCUSSES ACCESS/AFFORDABILITY TO THE CHARITY’S SERVICES

	Income Band				All
	Up to £25K	£25K to £100K	£100K to £500K	Over £500K	
Not relevant: charity does not appear to undertake any activities where charges might be applicable	59.2%	51.3%	58.7%	39.7%	51.3%
Charity appears to make charges but there is no discussion of restrictions on who has opportunity to benefit	33.6%	43.2%	28.6%	25.9%	32.7%
Some discussion of prices in relation to affordability for service users	4.3%	3.8%	6.6%	8.0%	5.8%
Trustees have considered how fees could restrict access – but little or no detail on what the charity has done to address this		1.3%	1.0%	3.3%	1.6%
Clear understanding of how high fees/charges could restrict the opportunity to benefit	2.8%	.5%	5.1%	23.1%	8.6%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

V STEPS TAKEN (IF APPLICABLE) TO MITIGATE ANY BARRIERS WHICH MIGHT OTHERWISE ARISE DUE TO FEE CHARGING

	Income Band				All
	Up to £25K	£25K to £100K	£100K to £500K	Over £500K	
No restriction on beneficiaries to address (charity does not appear to charge fees)	54.5%	50.4%	58.1%	39.4%	50.1%
Reduced frees, lower (or free) charges, or bursaries offered to assist those who might not be able to afford the full cost	4.3%	2.6%	8.1%	28.9%	11.9%
External funding sought or provide subsidies	.5%	3.0%	5.1%	5.8%	4.0%
Plans discussed to provide subsidies or reduced fees in future	.5%	.3%	.3%		.2%
Justification of costs as being reasonable with no need for subsidies or reductions	1.4%	1.0%	1.5%	1.5%	1.4%
Other explanations	6.2%	.8%	.8%	1.3%	1.7%
Zero discussion of issue even though charges were recognised	32.7%	42.1%	26.1%	23.1%	30.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

W WHETHER THE TAR MENTIONS ANY PRIVATE BENEFITS

	Income Band				All
	Up to £25K	£25K to £100K	£100K to £500K	Over £500K	
No mention of private benefits	99.0%	98.5%	96.4%	93.0%	96.4%
Private benefits are mentioned	1.0%	1.5%	3.6%	7.0%	3.6%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

C.6 Approval of TAR and Overall PBR Quality

X APPROVAL OF THE TAR BY TRUSTEES

	Income Band				All
	Up to £25K	£25K to £100K	£100K to £500K	Over £500K	
No Approval	55.9%	30.2%	10.6%	1.5%	20.4%
Statement that trustees have approved but no date	10.0%	8.5%	10.9%	7.0%	9.0%
Statement that trustees have approved with date but no named signatory(ies)	11.8%	11.1%	17.0%	19.3%	15.2%
Clear statement trustees have approved with named signatory but date more than 10 months old	1.4%	2.8%	2.0%	1.5%	2.0%
Trustees have approved TAR with name of signatory and date within 10 months of year end	20.9%	47.5%	59.5%	70.6%	53.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Y OVERALL TAR QUALITY IN TERMS OF PUBLIC BENEFIT REPORTING

	Income Band				All
	Up to £25K	£25K to £100K	£100K to £500K	Over £500K	
No TAR provided	28.9%	12.6%	4.8%	.3%	9.3%
TAR is provided but with no discussion of PB	25.1%	34.2%	15.9%	5.8%	19.6%
TAR describes the work of the charity to some extent and partly addresses the requirements for public benefit reporting	33.2%	37.9%	43.8%	26.9%	35.7%
TAR appears to meet legal requirements but lacks clarity on some issues	10.4%	13.1%	24.1%	41.5%	23.8%
TAR clearly addresses all public benefit reporting requirements (score 4)	2.4%	2.3%	9.6%	20.4%	9.5%
Excellent example of public benefit reporting (score 5)			1.8%	5.3%	2.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

C.7 Additional Analysis of Findings by Charity Activity

On their Annual Returns, and when a new charity is registered, the trustees are given the opportunity to identify the charity's main area of activity. Trustees are asked to select one or more of the codes below in answer to the question "What does your charity do?".

In order to consider whether the practice of PBR varies substantially between charities in different fields of activity, the results for some the variables above are presented again, this time broken down by area of charitable activity.

All 1402 charities included in this study had at least once activity code on the register of charities, but charities are allowed to select *more than one* activity, and in such cases there is no simple means of determining which one should be regarded as the main activity for analysis purposes.

However, 746 charities (53.2%) had just a single activity recorded, so we can be clear that these charities were focused in a specific field, as follows. The analysis in this subsection is based on these 746.

Charity Commission Code	Activity Area	Frequency	Percent
101	General Charitable Purposes	122	16.4%
102	Education/Training	314	42.1%
103	Medical/Health/Sickness	49	6.6%
104	Disability	28	3.8%
105	Relief of Poverty*	19	2.5%
106	Overseas Aid/Famine Relief*	8	1.1%
107	Accommodation/Housing	31	4.2%
108	Religious Activities	91	12.2%
109	Arts/Culture	31	4.2%
110	Sport/Recreation*	18	2.4%
111	Animals*	11	1.5%
112	Environment/Conservation/Heritage*	13	1.7%
113	Economic/Community Development/Employment*	2	.3%
114	Other Charitable Purposes*	9	1.2%
	All charities with a single field of activity	746	100.0%

For the subsequent tables, those activity areas which had fewer than 20 charities (those marked above with an asterisk) are grouped together as a single category of "Other". This is to ensure readability and to avoid the risk of identifying individual charities in the very small categories.

I & E TYPICAL INCOME AND TAR PAGES BY CHARITY ACTIVITY AREA

Activity Area	Number of charities	Median income (to nearest £1000)	Mean number of pages in TAR
General Charitable Purposes	122	£90,000	3.6
Education/Training	314	£154,000	5.2
Medical/Health/Sickness	49	£216,000	5.7
Disability	28	£172,000	5.0
Accommodation/Housing	31	£104,000	3.5
Religious Activities	91	£114,000	4.6
Arts/Culture	31	£42,000	4.0
Other	80	£135,000	6.4
All charities with a single field of activity	746	£138,000	4.9

It will be seen that the mean length of TAR does not differ substantially between the various sectors of charitable activity. On average, the TARs are slightly longer for charities in the “other” category, and slightly shorter for charities in the areas of “general charitable purposes” and “accommodation/housing”.

N QUALITY SCORE ON THE EXTENT TO WHICH THE TAR INCLUDES A CLEAR STATEMENT CONFIRMING THAT THE TRUSTEES HAVE HAD REGARD TO THE CHARITY COMMISSION’S GUIDANCE ON THE PUBLIC BENEFIT REQUIREMENT – ANALYSED BY CHARITY ACTIVITY AREA

	No statement at all of compliance with CC guidance	Some vague hint to suggest the trustees may have some awareness of PB in terms of CC guidance	No direct statement but evidence referring to a number of CC sub-principles	No clear statement but vague phrases such as taking account of CC guidance	Clear statement the trustees have had regard to the CC’s guidance on PB	Total
General Charitable Purposes	50.8%	2.5%	.8%	.8%	45.1%	100.0%
Education/Training	49.4%	3.5%	3.8%	3.2%	40.1%	100.0%
Medical/Health/Sickness	46.9%	4.1%		2.0%	46.9%	100.0%
Disability	57.1%			3.6%	39.3%	100.0%
Accommodation/Housing	51.6%	9.7%			38.7%	100.0%
Religious Activities	51.6%	4.4%	2.2%	3.3%	38.5%	100.0%
Arts/Culture	61.3%	3.2%			35.5%	100.0%
Other	47.5%	3.8%	3.8%	3.8%	41.3%	100.0%
All 746 charities with one activity area	50.4%	3.6%	2.4%	2.5%	41.0%	100.0%

The table indicates that charities across all activity areas have relatively similar rates of including (or not including) the statement that the trustees have had regard to the Commission’s guidance. The differences between them are not statistically significant⁵⁸.

Y OVERALL TAR QUALITY IN TERMS OF PUBLIC BENEFIT REPORTING – ANALYSED BY CHARITY ACTIVITY AREA

	TAR PB Quality						Total
	No TAR provided (Score 0)	TAR is provided but with no discussion of PB (Score 1)	TAR partly addresses the requirements for public benefit reporting (Score 2)	TAR appears to meet legal requirements but lacks clarity on some issues (Score 3)	TAR clearly addresses all public benefit reporting requirements (Score 4)	Excellent example of public benefit reporting (Score 5)	
General Charitable Purposes	9.8%	32.0%	34.4%	20.5%	3.3%		100.0%
Education/Training	14.0%	15.9%	33.1%	22.3%	10.8%	3.8%	100.0%
Medical/Health/Sickness	6.1%	4.1%	49.0%	22.4%	12.2%	6.1%	100.0%
Disability	7.1%	21.4%	25.0%	39.3%	7.1%		100.0%
Accommodation/Housing	9.7%	29.0%	19.4%	22.6%	19.4%		100.0%
Religious Activities	4.4%	24.2%	33.0%	30.8%	5.5%	2.2%	100.0%
Arts/Culture	16.1%	25.8%	32.3%	12.9%	12.9%		100.0%
Other	7.5%	18.8%	37.5%	30.0%	3.8%	2.5%	100.0%
All 746 charities with one activity area	10.6%	20.2%	33.9%	24.1%	8.6%	2.5%	100.0%

This showed that overall TAR quality varies significantly by charity activity area⁵⁹. The highest proportions of TARs with scores of 4 or 5 (meeting all the requirements and/or excellent) are charities in the areas of “accommodation/housing” (19.4%) and “medical/health/sickness” (18.3%). The category “education/training” is not far behind (14.6% meeting all requirements or excellent). The weakest category in terms of meeting all the requirements is “general charitable purposes” (3.3%).

⁵⁸ A one way analysis of variance (F-test) comparing the mean scores for charities in each activity area found $F_{(7,738)} = 0.31$ on this consideration of the guidance. This is a very low ratio that is not significant.

⁵⁹ A one way analysis of variance (F-test) comparing the mean scores for charities in each activity area found $F_{(7,738)} = 2.50$ on overall TAR quality. This is a substantial ratio, showing that variations in scores between charities in different activity areas are clearly significant at the .05 level.

Appendix D: Detailed Findings from Phase 1: Comparing PBR Across Two Years

D.1 Comparison of TARs from a year before the PBR requirement was mandatory with the most recent TARs available for the same charities (pre- and post-2008).

Two years of TARs compared for 111 charities (in each case a TAR with a year ending in spring/summer 2009 was compared with a TAR for the same charity with a year ending in spring/summer 2010).

Because of the smaller number of charities in these two year comparisons, we simply give the mean scores on each of the main variables assessed concerning quality of PBR⁶⁰. We then compare the means – if the mean quality score in the second year is substantially higher than the first year this demonstrates that standards of PBR are increasing over time. However, in many cases the differences are not large enough to be statistically significant⁶¹.

As well as comparing the quality scores, we also give the mean gross incomes of each year, the mean year end dates, and the mean number of TAR pages.

<i>COMPARISON OF 111 PAIRS OF TARs FOR THE SAME CHARITY: PRE- AND POST-2008</i>				
<i>Variable</i>	<i>Year 1 mean (year began pre- 1.4.08)</i>	<i>Year 2 mean (year began post- 1.4.08)</i>	<i>Difference in means (Yr2 – Yr1)</i>	<i>Significance</i>
Year end dates of TARs considered (<i>H</i>)	11/09/2008	12/10/2009	13 mths	n/a
Total income shown in accounts (<i>I</i>)	£923,774	£753,450	£-170,324	n/a
Pages in TAR (<i>E</i>)	4.68	4.65	-0.03	
Extent to which the TAR includes a clear statement of charitable aims (score 0-4) (<i>M</i>)	3.48	3.58	0.10	
Statement of having regard to the CC guidance on PB (score 0-4) (<i>N</i>)	0.48	1.79	1.31	*
Extent to which the TAR recognises the beneficiaries in describing the activities (0-4) (<i>O</i>)	2.78	2.92	0.14	*
Extent to which the TAR describes and explains the activities in terms of public benefit (0-4) (<i>P</i>)	2.45	2.56	0.11	
Extent to which the TAR explains how the activities benefit the beneficiaries (0-4) (<i>Q</i>)	1.56	1.83	0.27	*
Approval of TAR by trustees (0-4) (<i>X</i>)	2.90	3.04	0.14	
Overall TAR quality in terms of PBR (0-5) (<i>Y</i>)	1.80	2.14	0.34	*

⁶⁰ We did not consider the variables only applicable to auditable charities, nor the categorical variables which could not be expressed as a mean.

⁶¹ A one-way paired T-test was used to compare the mean scores with a research hypothesis that the second year score would be higher. For those marked * in the final column, the difference in means across the two years was significant at the .05 level (cases where $t_{(110)} > 1.66$).

The shift from pre-PBR to post-PBR shows dramatically higher scores for the statement of having regard to the Commission's guidance (as one would expect – only those who adopted the new requirements early would have included this in a pre-2008 TAR). But statistically significant improvements are also seen in:

- the recognition of beneficiaries
- the explanations of how the activities benefit the beneficiaries
- the overall TAR quality in terms of PBR.

There is no increase in the mean length of TAR to accommodate the new requirements (in fact there is a slight decrease, so PBR may have prompted charities to explain their work more precisely and concisely, though equally the reduced length could be linked to reduced charity incomes in the later year – but either way the reduction in TAR length is not significant).

The figures even show a small increase in the level of TAR approval by trustees (which is distinct from the PBR requirement) so it is possible that PBR may have prompted other issues of compliance (although this difference is not large enough to be significant, so no conclusions should be drawn).

D.2 Comparison of two years of TARs for the same charity – both years subject to PBR (both post-2008)

Two years of TARs both subject to PBR were compared for 29 charities (in each case a TAR with a year ending in spring/summer 2009 was compared with a TAR for the same charity with a year ending in spring/summer 2010).

Mean quality scores on each variable are then compared across the two years, on the same basis as above. However, in most cases the differences are not large enough to be statistically significant⁶².

⁶² A one-way paired T-test was used to compare the mean scores with a research hypothesis that the second year score would be higher. For those marked * in the final column, the difference in means across the two years was significant at the .05 level (cases where $t_{(28)} > 1.70$).

<i>COMPARISON OF 29 PAIRS OF TARS FOR SAME CHARITY: BOTH POST-2008</i>				
<i>Variable</i>	<i>Year 1 mean (2009 Year end)</i>	<i>Year 2 mean (2010 Year end)</i>	<i>Difference in means (Yr2 – Yr1)</i>	<i>Significance</i>
Year end dates of TARs considered (<i>H</i>)	14.4.2009	27.4.2010	12 mth 7 days	n/a
Total income shown in accounts (<i>I</i>)	£761,307	£758,996	£-2,311	n/a
Pages in TAR (<i>E</i>)	5.10	5.10 ⁶³	0.00	
Extent to which the TAR includes a clear statement of charitable aims (score 0-4) (<i>M</i>)	3.31	3.31	0.00	
Statement of having regard to the CC guidance on PB (score 0-4) (<i>N</i>)	1.48	1.86	0.38	*
Extent to which the TAR recognises the beneficiaries in describing the activities (0-4) (<i>O</i>)	2.83	2.86	0.03	
Extent to which the TAR describes and explains the activities in terms of public benefit (0-4) (<i>P</i>)	2.59	2.62	0.03	
Extent to which the TAR explains how the activities benefit the beneficiaries (0-4) (<i>Q</i>)	1.69	1.93	0.24	
Approval of TAR by trustees (0-4) (<i>X</i>)	2.86	2.83	-0.03	
Overall TAR quality in terms of PBR (0-5) (<i>Y</i>)	2.11	2.21	0.10	

The only variable where the differences are significant is on the statement that the trustees had considered the Charity Commission guidance – more charities included this in the second year (the mean score for this on a 0-4 scale increased from 1.48 to 1.86). (However, with a sample of just 29, differences have to be quite large in order to be significant.)

⁶³ Many charities had TARs of different lengths across the two years, but some were longer and some were shorter, giving a mean which was the same in both years.

Appendix E: The Law on Public Benefit Reporting in England and Wales

E.1 The Charities Act 1993 (as amended by the Charities Act 2006 and other changes)

Section 45 - Annual reports

- (1) The charity trustees of a charity shall prepare in respect of each financial year of the charity an annual report containing—
 - (a) such a report by the trustees on the activities of the charity during that year, and
 - (b) such other information relating to the charity or to its trustees or officers, as may be prescribed by regulations made by the Secretary of State.
- (2) ...
- (3) Where a charity's gross income in any financial year exceeds £25,000, the annual report required to be prepared under this section in respect of that year shall be transmitted to the Commission by the charity trustees—
 - (a) within ten months from the end of that year, or
 - (b) within such longer period as the Commission may for any special reason allow in the case of that report.
- (4) any copy of an annual report transmitted to the Commission under this section shall have attached to it a copy of the statement of accounts prepared for the financial year in question together with—
 - (a) where the accounts of the charity for that year have been audited under section 43 above, a copy of the report made by the auditor ...
 - (b) where the accounts of the charity for that year have been examined under section 43 above, a copy of the report made by the independent examiner

E.2 The Charities (Accounts and Reports) Regulations 2008 (SI 2008/629)

Regulation 40 – Annual reports: non-parent charity⁶⁴

- 40.—(1) This regulation applies to an annual report prepared in accordance with section 45(1) of the 1993 Act by the charity trustees of a non-parent charity.
- (2) The report on the activities of a charity during the year which is required to be contained in the annual report prepared under section 45 of the 1993 Act—
 - (a) must specify the financial year to which it relates;
 - (b) must—
 - (i) in the case of a charity which is not an auditable charity, be a brief summary setting out—
 - (aa) the main activities undertaken by the charity to further its charitable purposes for the public benefit; and

⁶⁴ Essentially the same requirements apply under reg.41 to parent charities of groups, but the descriptions then relate to “the parent charity and its subsidiary undertakings”.

- (bb) the main achievements of the charity during the year.
 - (ii) in the case of a charity which is an auditable charity⁶⁵, be a review of the significant activities undertaken by the charity during the relevant financial year to further its charitable purposes for the public benefit or to generate resources to be used to further its purposes including—
 - (aa) details of the aims and objectives which the charity trustees have set for the charity in that year, details of the strategies adopted and of significant activities undertaken, in order to achieve those aims and objectives;
 - (bb) details of the achievements of the charity during the year, measured by reference to the aims and objectives which have been set;
 - (cc) details of any significant contribution of volunteers to these activities;
 - (dd) details of the principal sources of income of the charity; and
 - (ee) a statement as to whether the charity trustees have given consideration to the major risks to which the charity is exposed and satisfied themselves that systems or procedures are established in order to manage those risks;
 - (c) must—
 - (i) ...; and
 - (ii) contain a statement by the charity trustees as to whether they have complied with the duty in section 4 of the 2006 Act to have due regard to guidance published by the Commission; and
 - (iii) be dated and be signed by one or more of the charity trustees, each of whom has been authorised to do so.
- (3)⁶⁶
- (l) a summary description of the purposes of the charity;
- ...

⁶⁵ The Regulations define an “auditable charity” as “a charity the accounts of which for the financial year in question are required to be audited in pursuance of any statutory requirement” – Reg.2(1). Under the Charities Act 1993 s.43 as amended, all charities over £500,000 income are required to have their accounts audited. A charity with lower income may also be subject to statutory audit if it has over £250,000 income and over £3.26M assets. However, the assets test operated differently prior to 1 April 2009, so the focus of this study is purely on distinguishing charities above and below £500,000 income.

⁶⁶ The rest of the Regulation lists all the other information which must be included in the TAR – including issues such as the charity’s name, governing document, details of trustees, policies on various issues, etc.