A User's Guide to Australian Charity Data

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the Centre for Social Impact

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Introduction

This paper has been developed in anticipation of the Australian Charities and Not-for-profits Commission (ACNC), which is developing a financial reporting framework that will take effect from the financial year commencing on 1 July 2013 (or alternative date for charities with an approved substituted accounting period). This framework will set out what information needs to be submitted to the ACNC by charities and, possibly, in time, other not-for-profit organisations. The ACNC "will register not-for-profits that are charities and establish a free, searchable register of charities. Through the register, anyone will be able to find out information about a charity they might want to donate money to or volunteer with" (ACNC Taskforce, 2012). Other interested parties will also be able to use the information for their purposes.

Information on the sector is valuable to all stakeholders. **Charities** will be able to communicate their activities and share best practice. **Funders** will be able to access, collate and analyse this information to improve their impact. **Policy makers** at all levels of government and regulators will be able to base policy decisions on evidence collected. **Researchers** will be able to gain insight into the sector to support better practice for all stakeholders.

Having information on charities available from a single source and in a consistent format improves the effectiveness and efficiency of reporting. It might also allow more insights into the sector as a whole. However, the context within which organisations operate needs to be taken into account when interpreting information about charities. For example, creating a charity "risk rating" that rewards the stockpiling of increasingly large cash reserves seems to encourage stability, but does not encourage effective use of funds, so should be actively discouraged. However, looking at the cash reserves of an entity in context could be useful when evaluating the cash flow management of an organisation. Charities and the users of their data should prepare to meet an increase in both volume required and external access to charity information. This involves proactively publishing information to support constructive and accurate interpretation of data, such as this paper. It also involves building the capacity of data producers to present datasets and the ability of data users to access and contextually interpret these datasets to paint a fuller picture of the sector and its organisations.

This paper includes four sections.

- The first section contains a table for each charity stakeholder (or data user) group. It outlines the questions this group is asking, where they might source their information, the comparisons they might make and the effect this might have on charity behaviour.
- The second section looks at better practice analytical approaches from three international organisations to provide examples of how preparers and users of such data might consider it.
- The third section presents some information from the Interim Commissioner of the ACNC taskforce and key expectations of other stakeholders as to the effects of the ACNC.
- The fourth section lists some common financial and impact measures, including a discussion of when they may or may not be useful.

This paper is not an exhaustive list of data users and measures: it contains the current views of stakeholders captured in workshops, interviews and collaborative review. It is designed to inform and stimulate discussion, rather than provide definitive rulings on the use of Australian charity data in this changing environment. Users should be mindful that these ratios, other metrics and their discussion represent a fraction of the information available.

1. Who uses Australian charity data and for what are they using it?

In this section are tables for categories of charity stakeholders (or data users). Each table contains some exemplar purposes and effects of comparisons made between charities. It outlines the questions this group is asking, where they might source their information, the comparisons they might make and the effect this might have on charity behaviour.

The tables are designed to stimulate data users to ask themselves, "If I ask this question of this charity and answer it by comparison to these other charities, will it encourage the charity to behave in the way I want?" Data users are usually in complete agreement that they want charities to maximise the effect their operations have on the community, however the demands they place on charities don't always support that.

The scope of questions for each user group is limited to those related to judgements of charities and comparisons between them. They do not include questions about the sector as a whole or questions about external charity stakeholders. The effects of data use are limited to those related to charity behaviour, not the behaviour of other stakeholders.

Donors	
What questions are they trying to answer?	• Is this a bonafide charity? • Is the organisation financially sustainable? • Is the organisation operationally sustainable? • Am I convinced by their management team and track record of achievement? • Are they making a sustainable impact? • Do I understand how they help people? • What proportion of funds will be used for mission-related programs? • Could my dollars be better spent elsewhere? • How much do they need my donation? • What will they use my donation for? • Are they achieving what they promised with my funding? • What other donors and funding sources do they have? • Which people and other organisations are related to this charity?

Where do they get their data?	• Websites of individual organisations • Events • Annual reports • The media • From charities themselves • Promotional material • From applications for funding (for large donor organisations)
What comparisons are made?	• Personal alignment with mission and programs • Effectiveness of programs • Risk of not achieving expected outputs / outcomes with funding • Risk of insolvency • Impact in area of interest • Efficiency of funding use • Administration efficiency/ratios • Cost effectiveness • Net surplus/Net income
Positive effect on charity behaviour	• Providing information to support donors' decision-making processes • Increasing transparency & improving governance • Evaluating and publishing program results • Demonstrating what is purchased with funds e.g. $25 buys five ducks • Getting donors involved in the organisation to see the results for themselves • Improving effectiveness • Improving efficient use of funds • Staying on mission
Negative effect on charity behaviour	• Marketing to donors that increases risks and fundraising spend • Creative accounting • Misreporting • Spin and over-claiming • Focusing on brand awareness • Focusing on the short term by management and boards – medium to longer term view may be different • Advantage lies with larger and older organisations

Government funding body

Recent trends in Government procurement are a result of the general attempt across the public service to do more with less, and include:

- the transfer of work previously done by the public sector to the not-for-profit sector
- a move from grants to contracts and "investments"
- a desire to collect information from not-for-profit partners in a way that allows the efficiency and effectiveness of services to be compared
- a desire for benchmarks across jurisdictions in order to judge value for money
- an acceptance that red tape must be reduced

What questions are they trying to answer?	• Are they capable of providing the service? • Is this organisation financially sustainable? • Are the programs meeting the inputs, outputs and outcomes promised? • Is this organisation using public funding as they agreed they would? • What are the risks involved with funding this organisation and their services? • Is this organisation well governed and managed?
Where do they get their data?	• Annual reports • Audited financial statements • Tender applications • Acquittal reports back to funders accounting for expenditure and outputs • Quality assurance programs • Direct query
What comparisons are made?	• Effectiveness of charities programs • Cost per output • Cost per outcome • For tenders, there may be gateway criteria and a simple pass or fail • Ratios specifically developed for analysing procurement processes • Total cost of delivering required services • The financial position and performance of organisations
Positive effect on charity behaviour	• Increasing effectiveness • Evaluating programs in a way that provides data for selection criteria of tenders • Sound management of government programs and mature governance arrangements
Negative effect on charity behaviour	• Lowering cost by not quoting full cost (share of administrative expenses) • Promising overly optimistic outcomes • Under-reporting back office costs • Focusing on reported outcomes as opposed to all mission-related outcomes • Choosing easier clients rather than those most needy in order to meet targets

Social investors	
What questions are they trying to answer?	• Is the organisation financially sustainable? • Is the organisation operationally sustainable? • Do I trust the management of the organisation and program? • How much money is sought and how will it be spent? • What are the financial risks and returns and are they proportionate? • What social returns will be achieved and how likely are they to happen? • Do I have enough information about this organisation and program?
Where do they get their data?	• Investment proposal • Websites of individual organisations • Events • Annual reports • The media • From charities themselves
What comparisons are made?	• Previous involvement and returns to social investors • Reputation of charity • Strength of management team • Alignment of mission and program fit • Effectiveness of programs • Experience in program area • How innovative is the funding mechanism and who else will be investing • Risk of achieving expected outputs / outcomes with funding • Financial stability of organisation • Reputational benefits to investor of association with this investment and organisation
Positive effect on charity behaviour	• Increasing transparency and improving governance • Evaluating and regularly communicating program results • Adjusting programs to improve results of continuous evaluations • Improving effectiveness • Accessing new partners with transferable skills and knowledge
Negative effect on charity behaviour	• Diverting resources to cater to investors' initial and ongoing needs • Spin and over-claiming • Mission drift relating to investor priorities • Taking on additional financial risk to assure investors

Board/Management/Trustees	
What questions are they trying to answer?	• Are we delivering our vision, mission and strategy? • Are we delivering services / outputs that are sustainable and of the highest quality? • What issues and risks have been identified and how do we manage them? • Do we have the necessary data to manage this organisation successfully? • Can we improve our financial performance? • Can we improve our operating performance? • Is this organisation in good financial health? • What shall we report publically? • Are we reporting in a timely and balanced manner?
Where do they get their data?	• Internal reporting • Budgets and strategic plans and results • Reports on programs and services • Word of mouth from other stakeholders • Complaints – formal and informal • Quality review mechanisms such as accreditations and regulators
What comparisons are made?	• Reputation • Scale • Sustainability • Impact • Diversity of operations • Benchmarking costs and performance • Innovation • Quality
Positive effect on charity behaviour	• Focusing on key strategic and financial management data • Keeping mission central to decision making • Planning strategically
Negative effect on charity behaviour	• Focussing on internal reporting at the expense of external reporting • Under-reporting mistakes, negative results and potential issues • Struggling to meet the required reporting demands within reasonable cost

Regulators	
What questions are they trying to answer?	• Does this organisation comply with the law? • Does this organisation comply with our requirements? • Which areas of compliance are most challenging for charities? • What are areas of compliance risk? • If required, has this organisation's financial accounts been submitted? • If required, has this organisation's financial accounts been audited / reviewed? • What are the results of past activities? • Is the organisation solvent and sustainable? What are the warning signs it may not be? • Has the organisation fulfilled the requirements relating to its taxation status? • Has this organisation pursued its mission? • Are there systems in place to support good quality client service? • What is the quality of governance?
Where do they get their data?	• Submissions directly from charities including acquittal statements • Financial accounts • Records of fundraising appeals • Registers of charities (of their own and other regulators) • Annual Information Statements (anticipated from the ACNC) • Australian Securities and Investments Commission (ASIC) • Direct query • Inspections - can include interviews with board, management, stakeholders and clients • Complaints
What comparisons are made?	• Unrelated activities versus charitable / mission activities • Regulatory compliance • Capacity for compliance
Positive effect on charity behaviour	• Providing good evidence • Promoting transparency • Increasing capacity for compliance – systems and processes • Improving governance
Negative effect on charity behaviour	• Burdening administrative resources • Decreasing numbers of volunteer Board members due to personal risk • Diverting resources to 'tick box' compliance • Uncertainty resulting in over- or under-reporting

Clients/beneficiaries	
What questions are they trying to answer?	• Will these services produce a positive result for me? • Is this a quality service? • What services are on offer? • What does this organisation do? • How does it perform its services? (e.g. religious involvement, with other partners) • How do I access or use their services? • Is this organisation listening to me? • Will this organisation make a difference to my life and the lives of others? • Do I like the people who work there? • What impact is this organisation having? Do I want to be part of that? • Will this organisation and program continue to exist? • What is the cost of accessing these services?
Where do they get their data?	• Service referrals • Websites • Media • Direct approach • Personal experience • Public reports • Word of mouth from other clients
What comparisons are made?	• Availability of service • Outcomes • Recommendations • Impact in this specific area of interest • Waiting times • Accessibility of service (Can I walk in off the street? Is the office welcoming?) • Quality and cost of service • Longevity of service delivery
Positive effect on charity behaviour	• Pursuing better outcomes for clients • Removing barriers to accessing services • Collecting and responding to client feedback
Negative effect on charity behaviour	• Mission drift in response to client feedback (i.e. organisation needs to determine the extent to which services demanded are those to be provided) • Denying service to clients who provide negative feedback • Under-utilising client feedback due to a lack of resources to process and implement change

Partner organisations – partners in delivery, international peers, referral agencies	
What questions are they trying to answer?	• Do we want to partner with this organisation? • Do we need to partner with the organisation? • How should we refer clients to this organisation? • Is this a viable organisation that will deliver to these clients? • How strong is their leadership and management team? • What are the reputational and other risks associated with partnering with this organisation? • What opportunities are there to partner with this organisation? • What due diligence is required before we partner with or refer to this organisation?
Where do they get their data?	• Networks • Audits, reviews and due diligence reports • Associations and peak bodies • Websites • Annual reports • Word of mouth from colleagues and clients • Client feedback • Brochures and other promotional material • Media • Direct query
What comparisons are made?	• Availability of services • Public opinion and reputation comparison • Capacity of potential partner to deliver a quality service • Cost of partnering compared to internal provision • IP and other costs / risks associated with working closely with a partner
Positive effect on charity behaviour	• Learning from peers • Innovating • Accessing new resources • Increasing capacity and service options for clients / recipients • Increasing smoother articulation between services offered internally and externally
Negative effect on charity behaviour	• Over-reliance on information that is not robust • Potential cost shifting between service providers • Potential blame shifting

Charities	
What questions are they trying to answer?	• How do our services compare to others'? • Is there a benchmark and where are we in comparison to it? • Should we be spending more or less on some areas? • Could we be achieving more for the amount we spend? • Do we have a point of difference we want to promote? • Do we have the information we need?
Where do they get their data?	• Direct query to other charities • Peak bodies and industry bodies • Clients • Word of mouth • Networking • Annual reports • Australian Bureau of Statistics • Media • Regulators
What comparisons are made?	• Reported outputs, outcomes and impact • Cost/unit • Choice of measures and indicators • Financial information • Number of outputs • Administrative/back office ratios • Contracts
Positive effect on charity behaviour	• Promoting and sharing best practice • Improving delivery • Networking • Collaborating • Improving administrative efficiency • Innovating
Negative effect on charity behaviour	• Competition • Creative accounting • Pressure to cut back office support • Pressure to increase marketing and brand awareness • Pressure on small charities to fit into mould of larger ones • Dedicating resources to address inappropriate comparisons

Volunteers	
What questions are they trying to answer?	• Why does this organisation exist? • Am I engaged by this organisation's mission? • What can I learn from or about this organisation and the issues it is trying to address? • Is this a suitable organisation to be giving time and energy to? • Can I help achieve this organisation's mission? • Is the organisation achieving its mission? • Is this organisation doing good things? • Is my contribution valued? • How much time am I being asked for and how flexible can that be? • Will I be covered by insurance? • Can I learn new skills and potentially get a new career path?
Where do they get their data?	• Web sites • Word of mouth • Personal experience • Application and training processes • Annual Report • Media • Direct query
What comparisons are made?	• Which charity do I feel I have the strongest relationship with? • To what activities can I contribute? • What impact will I have? • Will I help one person a lot or many people to a lesser extent? • Which mission aligns best with my values?
Positive effect on charity behaviour	• Looking after and thanking their volunteers • Training volunteers for their roles • Improving recruitment practices
Negative effect on charity behaviour	• Inefficiently diverting resources to volunteers • Taking on more volunteers than are manageable

Employees	
What questions are they trying to answer?	• How does my pay compare? Am I expected to volunteer additional time? • How does my career path compare? • Is this organisation financially sustainable? Will I continue to have a job? • What are my employee entitlements? Will they continue? • What professional development and training opportunities exist for me here? • What is this organisation trying to do? • Is this organisation actually pursuing its mission? • Is this organisation making an impact? • Am I making the real difference I wanted to make when I joined? • Do the values of this organisation align with my own? • Does the organisation manage its programs and staff well? Do I have faith in its leadership?
Where do they get their data?	• Personal experiences • Clients • Colleagues • Media • Charities' individual information portals • Training courses • The governing body and management
What comparisons are made?	• Lasting impact made by programs • Level of involvement of employees in programs • Work environment, hours, pay and benefits • Level of investment in staff PD and training • Ability to contribute solutions • Support of management • Staffing levels and way the organisation is managed • Comparison of mission, programs and roles for staff
Positive effect on charity behaviour	• Improving staff engagement and morale, and therefore productivity • Innovating human resource practices • Decreasing staff churn • Promoting organisation as a preferred employer
Negative effect on charity behaviour	• Inter-sector staffing bidding war • Pay disputes • Decreased flexibility in staffing arrangements • Increased costs of staffing support

Media	
What questions are they trying to answer?	• Is there a story to tell? • Is there a problem we can report? • Is there a good news story or stunt? • Are there cases of fraud? • Are government grants and tax concessions supporting worthy causes? • Who is the best and who is the worst? • Is this a credible source? • How much attention will their spokespeople attract?
Where do they get their data?	• Reports published by charities • Reports written about charities, including by government agencies • Websites • Media releases • Hearsay • ASIC • Australian Bureau of Statistics • Investigative journalism • Interviews and direct enquiry
What comparisons are made?	• Fraud and corruption • Fundraising efficiency • Performance • Number of people participating in events • Administration costs • Administration ratios • League tables from published data
Positive effect on charity behaviour	• Using the media to demonstrate good work to public • Doing something new or different • Publishing stories of people whose lives have changed for the better • Enhancing fundraising strategy • Influencing public policy
Negative effect on charity behaviour	• Over-claiming • Prioritising league tables over other strategic objectives • Promoting points of difference, not collaboration • Withholding anything that might be construed in a negative light • Reducing transparency

Researchers	
What questions are they trying to answer?	• Are the data comparable/useful/reliable/novel? • What important questions can be answered? • What are the trends in the sector? • How do donors behave? • What are the best service models and programs? • What is the value of the sector? • How do we disseminate relevant research findings?
Where do they get their data?	• Datasets from registers of regulators • Reports and evaluations released by charities and other researchers • Directly from primary sources • The Australian Bureau of Statistics • Government publications • Annual reports
What comparisons are made?	• Areas of the sector – are they growing or shrinking? • Effectiveness • Impact • Numbers of charities, staff, volunteers, clients • Method of measuring effect • Inter-jurisdictional and cross-sector effectiveness • Organisational maturity levels • Financial metrics and ratios
Positive effect on charity behaviour	• Improving the quality and quantity of data collected and released • Publishing evaluations of programs that are successful • Participating in research • Learning
Negative effect on charity behaviour	• Withholding negative evaluations of programs, which means that sub-optimal programs are repeated by others and overall data is skewed

Government policy makers (as distinct from funders)	
What questions are they trying to answer?	• What should government policy and government practice be in terms of charitable sector regulation and supervision? • What objectives does the government have for the sector? • What do governments need to do to support the sector? • How can governments facilitate best practice and knowledge flow? • Can we benchmark our own service delivery against those of charities? • What is the comparative public value of different types of charities (i.e. what is the public return on tax concessions)? • Are charities an effective and efficient channel for service delivery? • Which models of service delivery achieve the greatest impact in their areas? • What issues are charities' clients facing?
Where do they get their data?	• Annual reports • Performance evaluations • Acquittal data • Funding data • Direct inquiry • Academic research • Policy submissions • Regulators
What comparisons are made?	• Fit between government policy and charity mission and activities • Need for capacity building • Inter-government comparisons • Impact / effectiveness of programs
Positive effect on charity behaviour	• Improving evidence base for policy development • Improving service delivery and client outcomes • Improving relationship between policy makers and sector • Charities participating in policy development • Charities promoting effective innovations to governments
Negative effect on charity behaviour	• Aligning with current political ideology that may contradict key values and mission • Short-term positioning over long-term strategy

Public (as distinct from donor or client)	
What questions are they trying to answer?	• Are charities fulfilling the functions they say they are? • What functions do we expect charities to fulfil anyway? • What changes are made by charities? • What are they trying to do? • What is the size of the sector? • What impact is being made? • How are charities spending their money?
Where do they get their data?	• Published reports on the sector • Websites • Personal experience • Media • Word of mouth
What comparisons are made?	• Performance of individual charities • Charity performance against relevant population requirements • Performance of charities compared with Government and the private sector
Positive effect on charity behaviour	• Focusing on mission • Meeting the needs of populations, particularly as they change • Improving public understanding of the contribution of charities/NFPs • Supporting the public's willingness to volunteer time and money • Improving reputation and marketing to the public
Negative effect on charity behaviour	• Mission creep and mission distortion • Over-claiming • Disproportionate spending on public relations • Mis-direction of information towards those who are not directly involved in the organisation

Peak bodies and other sector-specific third party organisations	
What questions are they trying to answer?	• What does the sector need in order to be better supported? • Where does the sector need to be supported or advocated for in a policy context? • What public policy is in need of amendment or re-thinking to meet the sector's needs? • What are the trends in the sector? • What are the emerging issues? • Where are sector strengths and weaknesses? • What and where is best practice? • How can we help build the capacity of our members?
Where do they get their data?	• Member and board representatives • Sector reports and representations • Annual reports • Surveys of members • Academic and internal research • Direct inquiry
What comparisons are made?	• Policy frameworks and regulatory practices between jurisdictions • Innovation • Collaboration • Attendance at sector events • Size • Media profile
Positive effect on charity behaviour	• Informing governments and improving policy • Greater viability and effectiveness of members • Sharing best practice • Building partnerships and networks • Interacting and contributing to the common voice • Accessing support to respond to emerging issues
Negative effect on charity behaviour	• Surrendering to poor policy decisions from peak bodies that do not fully understand their members' issues • Losing focus on unique aspects of mission • Surrendering identity to aggregated data and consensus opinion • Repressing opposition or dissent

2. International best practice in charity analysis

The space between traditional philanthropic and government funders is beginning to fill with social investors, corporate social responsibility, outcomes-based contracts and multi-party funding mechanisms such as Social Impact Bonds. No matter their funding mechanism, they all desire to invest in charities that are likely to deliver their stated mission. The selection processes of all funders should encourage best practice from charities, both in management and operations.

Performance measurement is an area that currently generates both interest and research across the sector, with many organisations publishing multiple measures of inputs, activities and outputs. Using a range of methods, some organisations are beginning to measure and report on outcomes. While past results are a useful indicator of the future impact of an organisation, its organisational capabilities and the risks associated with current service delivery should also be considered.

This section details the approaches of three charity analysis organisations in three different countries. These approaches are presented to provoke and enhance discussion, rather than prescribe practice.

2.1. New Philanthropy Capital (UK)

New Philanthropy Capital published a guide to charity analysis, *The little blue book*. Their analytical approach includes examination of results, risks and capacity. Capacity is further split into strategy, operations and finance. Their framework looks at effectiveness in six areas:

- **Activities**: Do the charity's activities address a genuine need?
- **Results**: Can it demonstrate results of what it has achieved?
- **Leadership**: Do trustees and management provide high quality leadership?
- **People and resources**: Does it use staff, volunteers and resources well?
- **Finances**: Are the finances sound?
- **Ambition**: Is it ambitious to solve social problems? (New Philanthropy Capital, 2012).

2.2. Edna McConnell Clark Foundation (US)

In North America, the Edna McConnell Clark Foundation invests heavily in the funding, support, monitoring and evaluation of a large number of youth-focused charities. "After determining that an organization has achieved sufficient scale in both the number of youth it serves and the size of its budget to be likely to benefit from the Foundation's grantmaking approach, staff use six criteria to begin assessing whether it is a promising investment.

Initially we concentrate on:

- **Compelling Product -** Does the organization have empirical evidence of its program or service's impact on youth? This is assessed using a three-stage scale developed by the Foundation.
- **Strong Leadership and Management** – Do the staff and board have a track record of achieving the organization's objectives, and do they have a vision of future growth?
- **Commitment to Evaluation** – Is the organization measuring its performance and intent on evaluating and improving its outcomes?

If the answers to these questions are encouraging, we delve deeper in three areas:

- Financial Viability - Are the organization's finances sound?
- Operational Viability - Does the organization have the capacity to increase the number of youth it serves?
- Compatibility - Is the organization a good "fit" with EMCF's investment strategy?" (Edna McConnel Clark Foundation, 2012)

2.3. Charity Intelligence Canada

Charity Intelligence Canada (Ci) differs from the above examples in that it focuses funders on quantitative information to maximise the effectiveness and efficiency of their donations. This is provided under three headings: program data, charity analysis and audited financial statements. Quantitative data is coupled with a qualitative overview of the work of the charity. It is worth noting that while Ci sets desirable ranges for their quantitative measures, they will investigate the reasons charities fall outside these ranges and are willing to break their own rules if the circumstances require. Volunteer time is valued and included in their calculations. These calculations use the financial accounts data applicable to the previous three years' operation, and include the following measures for comparison

- Program cost coverage (reserves/annual program costs)
- Administrative costs
- Charity value
- Fundraising costs
- Local ownership
- Scope

It is interesting to note that there is no unit measure to calculate the cost efficiency of a program, with Ci stating that they have not so far found anything comparable and meaningful.

Data available on charities in the UK, US and Canada is different to Australia due to differences in accounting rules and reporting requirements. There are also distinct differences in the objectives and approaches of the organisations highlighted above. However, it is clear that all their analyses aim to be comprehensive and analysis of financial accounts plays only a part in their assessment. None attempts to ascribe a single numeric rating to a charity. These ideas and practices may not be relevant to particular charities in Australia for a host of reasons and their wholesale application should be avoided.

3. The Australian Charities and Not-for-profits Commission

The anticipated establishment of the Australian Charities and Not-for-profits Commission (ACNC) is part of a program of Federal Government reforms that aim to enhance the not-for-profit sector in Australia. Ms Susan Pascoe, the Interim Commissioner of the ACNC Taskforce and ACNC Commissioner Designate, outlined the most valuable role of the ACNC as follows:

> "It will depend on whom you ask. If you ask the sector, it will be to facilitate red-tape reduction across governments. They may also say the ACNC will be an important source of credibility and legitimacy, so the public will know that a charity has a charitable purpose and governance and financial standards to sustain its operation.
>
> If you ask the public, it might be that the ACNC delivers a high level of transparency to the sector. It may also be to support public trust and confidence in the sector.
>
> And finally, according to the Act, it will sustain innovation and the independence of the sector and provide a solid foundation for the work of the sector that is so valuable to our community."

Interim Commissioner Pascoe identified a public misconception as to the homogeneity of the sector, which ranges from billion dollar organisations to small organisations largely run by volunteers. A second important issue for the public was how much of their donation went to delivering the mission for which it was given (Tomkinson, 2012a).

The ACNC information portal was described by Interim Commissioner Pascoe as:

> "A significant contribution of the ACNC. We will establish the first reliable register on the sector. It will be a free, publicly searchable register on charities. At the moment if you want to find out about a charity in Australia you have to search through websites and the information may not be there. The ACNC Register will allow members of the public to access information on every registered charity in one place, and will eventually include other not-for-profits.
>
> The main thing is that we have up-to-date information, and that we can ascertain that the entity remains a charity. We've committed to requesting only necessary details when we ask charities for information and this is all information a charity should already have. For example, we'll ask them what their principal activities were for the last year, and what they expect their principle activities to be for the next year.
>
> In time we will be releasing data sets which enable people to aggregate and compare data.
>
> We will conduct ongoing work to ensure the Register allows for easy and open data access and sharing. We have planned a staged approach to increasing its functionality over time so as to allow people to access data sets in line with their own needs and uses. Individuals and organisations will find they will be able to use and connect with the Register in expanding ways as the data grows and new functionalities and search parameters are introduced over future releases in the coming months and years" (Tomkinson, 2012b).

When asked what they'd like to see from the establishment of the ACNC, responses collected from a small group of charity stakeholders attending a Centre for Social Impact workshop in 2012 included:

- standardised reporting - standard chart of accounts – to reduce red tape
- making best practice transparent reporting "mandatory" to a wider group of organisations, with consistency across the sector, both large and small
- charities recording fundraising and not being disadvantaged by what is being recorded and used
- transparency e.g. around philanthropic grantmaking
- ability to analyse aspects of financial activities, potential to achieve intelligence on charity sector
- comparable data within the sector, the ability to benchmark
- having data which can be leveraged but is auditable and reportable
- an understanding of data we are not already using and recording in a meaningful way (e.g. volunteers)
- a dataset that allows analysis of trends within the sector or that reflect trends within society
- more information on the not-for-profit sector e.g. economic impact of not-for-profits in Australia
- more support for the sector
- a level playing field
- evidence with which to address the current burden related to lack of back office administrative support

The expectations of the ACNC and its stakeholders are that significantly more data will be available and that it will be presented in a comparable format. This will allow comparisons between organisations and the sector as a whole. Over time it will provide a picture of the changing trends in the needs of Australian communities and the way in which the sector responds to them. ACNC data alone will not provide the answers to all questions that stakeholders may ask. The range and complexity of questions that ACNC data can answer will develop over time. ACNC data will become available progressively as reporting is phased in.

Registered charities will begin to supply financial information to the ACNC from the end of the 2013-14 financial year (or approved substituted accounting period). The amount of financial information supplied will depend on the size of the charity, with charities with annual revenue less than $250,000 supplying only limited data and not required to lodge financial reports. Charities classified as 'basic religious charities' will also not be required to lodge financial reports. Medium (with annual revenue from $250,000 and less than $1,000,000) and large (with annual revenue in excess of $1,000,000) registered charities must prepare and lodge financial reports with the ACNC from the end of the 2013-14 financial year (or approved substituted accounting period). Financial reports for medium registered entities (or audited in some cases) must be reviewed and large registered entities must have their financial reports audited. The contents of the ACNC Annual Information Statements and requirements for financial reports (which are now to be dealt with in regulations to the ACNC legislation) are yet to be finalised and will be subject to consultation. The financial information available will be limited for tier one charities (those with an annual revenue below $250 000) as they will not be required to lodge financial reports. Additionally, from 2014 onwards the Annual Information Statements will be proportional to the size of entities. Some charities will be reporting using substituted accounting periods, which will also affect the time at which comparable data is available. Finally, financial data will only be comparable to the extent that the same accounting approaches are taken to preparing information. In combination with other information, however, ACNC data will enable a much better understanding of Australian charities than currently exists.

4. Measures

The use of financial ratios is fraught with complications and considerations. However, with this in mind, they may still form part of meaningful financial analysis and comparison. They may be a good starting point, but they are only part of the picture. In commercial finance, financial measures and ratios are never used in isolation as the sole input to decide a course of action. One of the key issues with many of the measures below is that they were largely developed by the private sector for commercial use, relying on a goods-driven, profit-making business model for relevance. Financial ratios do not always accurately reflect and summarise the information in the accounts, let alone the financial health of an organisation. They do not make any consideration of the enormous strength and value contributed to the sector by volunteers or other cost of service variations such as location and client group. They do not clearly portray charity-specific financial issues such as restricted assets that must be used for a particular purpose. They only provide a snapshot of accounts, and even trend analysis may tie together data captured at specific points that do not reveal the true picture. Definitions of the financial measures themselves vary, the accounts they use may be out of date and prepared differently, and the similarities between organisations may be so few that desirable ranges for measures are unable to be established. Measures are desirable for use by a range of stakeholders because of their apparent comparability, but should be interpreted with consideration and care. One of the reasons for misleading comparison is the huge diversity of charities, which means that there are exceptions to every desirable range for any measure. Additionally, the ratio formulae provided below represent the most common forms of each ratio. These ratios may be amended or combined to better suit a specific organisation or group of organisations.

One session at the Reforming Fundraising Regulation Conference, hosted by the Australian Centre for Philanthropy and Nonprofit Studies (ACPNS) at the Queensland University of Technology, was the "Role of Fundraising and Administrative Ratios". The Video and Audio downloads provide a thorough and entertaining discussion of the use of these measures. Chris Ryan and Helen Irvine also published a paper in the Australian Accounting Review (2012, Vol. 22, No. 2) entitled *Not-For-Profit Ratios for Financial Resilience and Internal Accountability: A Study of Australian International Aid Organisations* proposing a suite of financial metrics for internal board use and for identifying areas that need to be communicated with stakeholders.

The following section outlines some common financial and performance measures, including a discussion of when they may or may not be useful. These measures relate to four broad categories. The first of these relate to the organisation's financial risk and ability to continue to fund its activities. The second category of measures shed light on the operations of the organisation. The third category includes measures that provide contextual information that gives a fuller picture of the organisation. And the final category of measures can be used to analyse the impact the organisation is making on the community it serves.

4.1. Free reserves; reserves; savings ratio

$$free\ reserves = \frac{current\ net\ assets}{monthly\ expenditure}$$

This definition of free reserves is only one of a range of accepted and utilised definitions. If sixty financial directors were asked to define free reserves it is possible that sixty definitions would be obtained. Free reserves are also referred to as unrestricted reserves and are one of the most widely used indicators of financial health.

When is this useful?

Free reserves are the funds that the organisation has to continue to run its operations. The free reserves ratio indicates the number of months that the organisation can operate without access to additional funding. It should be explained in the financial reports. The more months an organisation is funded the more likely it is to be operating into the future. The free reserves ratio is affected by the funds on hand as well as the costs incurred in running the organisation. Free reserves should be developed in response to a reserves policy, which would ideally focus on managing the risks of an organisation. These risks can be related to funding streams, workforce, suppliers and environment. A reserves policy should not state a fixed number of months of reserves without justification. Winner of the 2012 PwC Transparency Awards, Cancer Council NSW, state in its Notes to the financial statements that it has "sufficient reserves available to cover all of the trade and other payables at 30 June 2011" (Cancer Council NSW, 2011, p.36).

When is this not useful?

Free reserves can be used by credit rating agencies and procurement software as a measure of risk, with greater reserves reducing the perceived risk. An emphasis on high reserves causes immediate difficulty for new organisations. Those with low operating costs and low liabilities do not need large reserves and reduce their ability to achieve their objectives by trying to increase their reserves. Care International UK deliberately halved its reserves in order to increase its operational cash flow. Some charities such as housing associations are required to hold sufficient assets to meet future liabilities related to the property they own, but keeping these as cash reserves is not the most effective use of their cash. Encouraging charities to build reserves may come at the expense of current projects and is a follow-on effect of short-term funding by statutory funders. It is also perceived as against the principles of the charity sector to be "stocking up", as many organisations pride themselves on returning a high proportion of funding to beneficiaries. Keeping low reserve levels is encouraged by the behaviour of donors who are less likely to give to an organisation that has "spare" money in the bank.

4.2. Diversity of funding sources

Diversity of funding sources can be measured by number of funding sources but is best measured by calculating the proportion of income received from each source.

When is this useful?

Diversity of funding sources can indicate stability of income generation. The financial shock of losing a funding source is minimised if the organisation has a range of other sources. While diversity usually refers to a mix of fundraising activities, private donors and statutory funders, a range of funding sources within government can also provide stability.

When is this not useful?

Diversity of funding may also indicate a possible diversity of objective and increased monitoring requirements, which may weaken a charity's ability to deliver its mission. Diversity is not always a useful measure. Some organisations operate without any consistent funding sources. Other organisations are formed in direct response to a single source of funding and serve the needs of that source. If an organisation provides a service as a direct response to receiving a contract to do so, then the loss of that contract and funder may only result in the loss of the service and may not impact on the other ongoing activities of the organisation.

4.3. Current ratio; quick ratio; quick assets ratio; acid test ratio

$$current\ ratio = \frac{current\ assets - prepayments}{current\ liabilities}$$

$$quick\ ratio = \frac{current\ assets - (inventories\ \&\ prepayments)}{current\ liabilities}$$

Generally, an organisation's current assets include cash-on-hand amounts owing to the organisation (called receivables) and inventories. It may also include accounting assets such as prepayments. These may also be removed from the total current assets. Additionally, the calculation may reduce liabilities by income related to goods or services yet to be delivered.

When is this useful?

Liquidity refers to an organisation's ability to meet upcoming financial obligations from available cash or assets that can readily be turned into cash. These financial obligations may include debt coming due. The above liquidity ratios compare an organisation's liquid holdings to what it needs to pay out in the near term. The current ratio shows an organisation's ability to service its upcoming financial obligations out of all of its current assets. It is generally between 1.5 and 3 for healthy for-profit organisations. A ratio of lower than 1.5 in the commercial sector suggests an organisation may find itself without sufficient liquid assets to meet its upcoming obligations. The quick ratio is similar but considers only the most liquid assets, being cash and receivables. Inventory is excluded as they may not quickly be able to be sold for cash and so may not actually be relied on to meet upcoming obligations. The quick ratio will only differ from the current ratio if the organisation has inventories.

When is this not useful?

A large number of charities that receive the majority of funding from governments operate with a current ratio below 1. The ratio is also subject to the peaks and troughs of cash flow and the nature of government funding which is necessarily lumpy. The ratios are also highly misleading when either or both values are very small. As a snapshot ratio for small organisations it can be highly susceptible to significant change due to one or two payments. Similar to free reserves, a high current ratio can mean that a charity is hoarding its assets, rather than using them efficiently. For very large charities, current ratios are not likely to be as relevant as their liabilities. Current assets that include restricted cash may be misleading as these funds cannot be used to cover unrelated liabilities. Grants received but not yet expended also have a misleading effect on this ratio.

4.4. Gearing; debt to assets ratio

$$gearing = \frac{net\ liabilities}{net\ assets}$$

When is this useful?

Gearing considers the organisation's solvency, which is its ability to meet debts when they become due and payable. However, quick and current ratios may be more relevant measures of solvency. The gearing ratio might be useful to compare levels of debt to the resources made available by funders. A low value indicates that the organisation is financially sound and that debt is low in relation to assets. Alternatively, and for most charities, there may have been no need to resort to borrowing. A higher value may show that an organisation spends more of its resources on interest payments, or has borrowed against expected long-term future income. If government moves towards contracts where payments do not occur until years after services are received, then charities may increasingly use debt to create working capital.

When is this not useful?

Charities in Australia do not generally carry much debt, so this ratio may not applicable in many cases. If they do carry debt, then it must be understood whether it bears interest and whether the charity can meet these payments. The meaning of a gearing ratio is very different for those organisations that own property so these cannot be compared to the rest of the sector. This ratio can also be misleading due to the differences in timeframes between liabilities that are due and assets that may be accessed to cover them. It may also fail to mean much for smaller organisations with few financial activities.

4.5. Number of days of overdue bills

When is this useful?

The number of days of overdue bills may shed light on an organisation's short term financial health. Overdue bills could mean organisation does not have sufficient funds on hand to pay bills. Inability to pay bills is real evidence of liquidity and solvency issues. Guidestar UK found that for some charities that face financial downfall, all other indicators pointed to good health, but the increase in the days that utility bills were overdue could have predicted the charity's collapse sooner. It may be a useful internal measure that signals early financial distress to boards and management.

When is this not useful?

This data is not publicly available, so the cost of acquiring it would have to be taken into account if it were to be first validated as useful and then used as a comparative measure.

4.6. Investment rate of return

This measure relates to investments held by the charity and gives return as a percentage of the original investment. Many government funders are highly prescriptive on this topic.

When is this useful?

Investment rate of return shows how well an organisation is investing its assets. It should be compared to other rates of return in the market with a similar risk profile. Note that higher returns are generally made with higher risk investments and the board of directors of the charity have to consider the balance between safety of the organisation's investments versus the return achieved.

When is this not useful?

A charity may be expected by its stakeholders to invest in the safest products, for example, term deposits. Investment rate of return for charity investments should not be compared with market returns for investment options that do not suit the risk profile of the organisation. Charities may also choose to align their investing with their mission and become social investors themselves. This does not necessarily mean a lower investment rate of return, but should include social return. It's also worth remembering that charities do not always seek to hold or invest assets but to use assets to seek outcomes.

4.7. Financial stability - time series of net income

$$net\ income = revenue - expenses$$

When is this useful?

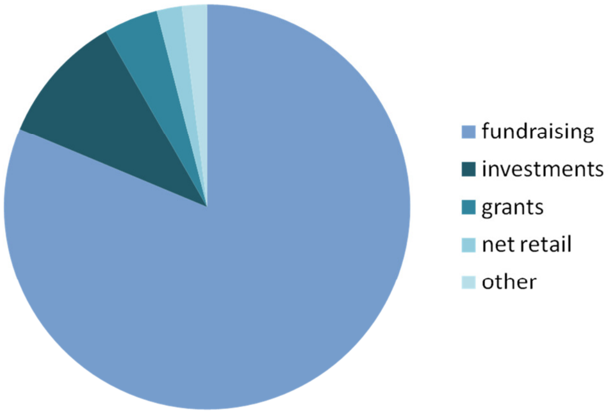
Not-for-profit or charitable organisations should make a surplus in order to maintain financial sustainability. Net income that remains stable or increases over time may indicate financial stability. Positive net income has been shown to have a strong positive correlation to positive operating margins.[1] The analysis of income trend should not focus simply on net income, but should detail all sources of income separately in relation to expenses and assets and for this reason may only be a useful measure for internal management.

When is this not useful?

Net income is not the principal indicator of success for the not-for-profit sector. Therefore, a focus on profitability may have the effect of diverting focus away from other indicators and mission foci.

[1] Greenlee, J.S. and Trussel,J.M. (2000) Predicting the financial vulnerability of charitable organisations. *Nonprofit management and leadership*, 11(2), pp199-210.

4.8. Common size analysis of income or expenditure



In this analysis every item of income is calculated as a percentage of total income. A similar analysis can be performed with expenditure.

When is this useful?

Common size analysis provides a readily observable breakdown of the various components of income and expenditure. It is useful in comparing different organisations on an equivalent basis. For example, a common size analysis will visibly show if a particular organisation is more reliant on fundraising as the source of its income compared to another organisation. Common size analysis can show changes in the breakdown over time for the same organisation. This analysis can reveal changes in the trends of income sources or expenditures. For example, it may reveal that a particular organisation is sourcing more of its income from investments over time. Understanding the funding mix is essential to understanding how the finances of a charity work. Common size analysis gives a picture of reliance on variable sources of funding, as well as provides context for consideration of the fundraising ratio. A comparison of common size analysis of income and expenditure may be useful when considering whether funding sources related to particular activities are being subsidised by other funds. The proportion of income from each source can be compared to see the effect if funding from any source were to collapse. Common size analysis is a useful starting point when identifying the differences between charities. If funding sources are very different, then the organisation probably shouldn't be compared using other measures.

When is this not useful?

This is a snapshot measure and may change considerably from year to year. This analysis should be expected to vary wildly between charities and between years for the same charities, as they respond to changes in strategy and funding mix.

4.9. Administrative efficiency; administrative cost

$$administrative\ efficiency = \frac{administrative\ expenditure}{total\ expenditure}$$

Administrative efficiency is the proportion of total expenses made up as administrative expenditure. It is sometimes called 'core costs' or 'support costs'. It may or may not include governance costs, depending on the purpose of those using it. It should be noted that the definition of administrative costs needs to be made upfront by organisations wanting to use this measure and that the calculation of such expenses should be made consistently in order to have longitudinal validity.

When is this useful?

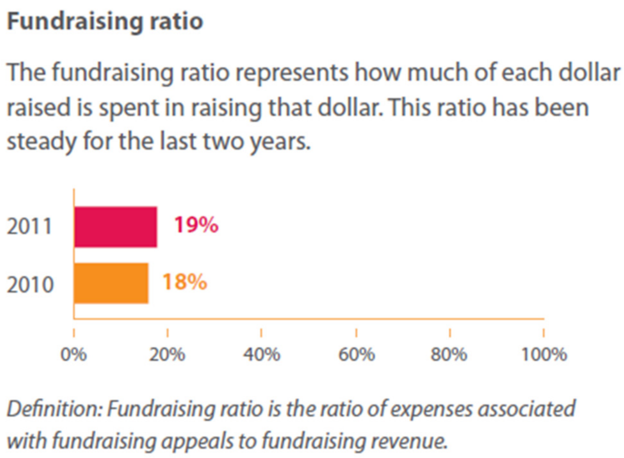
Lower administrative costs can be an attractive characteristic of organisations. Donors may be comforted from knowing that only a small part of their donations are spent on administrative costs, with the larger part going towards the organisation's cause. Many charities use volunteers and smaller organisations may have no administrative costs at all. Low administrative costs may show that a charity is running efficiently, although this may not necessarily be the case if, for example, the organisation benefits from a significant portion of volunteers.

When is this not useful?

Increasing administrative spending might improve results. Current costs such as IT, websites and complying with regulation render it detrimental to promote the goal of super-low administration costs. For example, the employment of an administrative assistant for a legal advice service may result in its lawyers spending more time with legal, instead of administrative activities. A focus on limiting administrative costs may reduce the sustainability of the organisation over the longer term as boards and executives make decisions in response to short-term pressure. A further issue with both administrative and fundraising efficiency calculations is the ability of accountants to record costs to suit their purposes. This means that these ratios may not be comparable between organisations. For example, if it is desirable to present low administrative costs, the administrative costs related to each operating activity may be recorded against the activity.

4.10. Fundraising ratio; fundraising ratio; fundraising efficiency

$$fundraising\ ratio = \frac{cost\ of\ fundraising}{fundraising\ income}$$



(Opportunity International Australia, 2011, p.37)

When is this useful?

Fundraising efficiency may be useful if analysed internally for fundraising managers to examine and improve upon their mix of fundraising activities. Charities may also benchmark their fundraising costs and income against other similar charities to understand how they can improve.

When is this not useful?

As with administrative efficiency, fundraising efficiency is reliant on accounting practices. It reflects the purpose for which it was required and is not a useful comparator across organisations. The majority of costs of a new fundraising program or stream can be incurred in the first few years, with revenue received in the years that follow. It is highly dependent on the proportion of income a charity receives from the community; a charity that receives 90% of its funds from government grants and contracts has less need for donor funds and may spend very little on fundraising activities. Even when used for internal analysis, there are difficulties associated with the cross-benefits of activities. For example, charity shops often fail to make money, however, raise the profile of the charity and thus increase the success of other fundraising activities such as street collections.

4.11. Governance ratio

$$governance\ ratio = \frac{cost\ of\ governance}{total\ expenditure}$$

The definition of governance costs may vary between organisations and may overlap with administrative costs.

When is this useful?

It may be useful for a charity to understand how much they are spending on governance and track this over time. A charity may embark on a program to improve its governance and educate its board and may want to see this reflected in the financial statements. Apparent low costs may be indicative of a lack of provision of professional development for directors and a lack of appropriate governance arrangements including such elements as internal audit and appropriate risk management arrangements.

When is this not useful?

When the governance costs are accounted for using different definitions and methods, then they should not be compared. Some organisations may not identify governance costs as a separate accounting item at all. Judgement on the right proportion of costs to be spent on governance is reliant on understanding the components of these costs and the strategic objectives of this spending, so this ratio is likely to be misleading if the context is not available. Some funders may require or desire low costs of governance, but this may not promote quality practices for the organisations they fund. Appropriate internal and external governance arrangements ensure the quality of service delivery and assure funders and others over the expenditure and service delivery management of charities. There needs to be appropriate expenditure on governance arrangements to ensure the quality and protection of services to vulnerable communities.

4.12. Unit cost; operational efficiency

Operational efficiency can be measured in cost per participant, cost per completion, cost per referral at a programme or project level.

When is this useful?

It is a favoured method of government funders to compare the economics of different options and providers. If it is possible to establish a benchmark for an identical good or service, then meaningful comparison can be made and operations improved. For instance, New South Wales Government recently developed an annual unit cost for providers of foster care places for children.

When is this not useful?

It may be difficult to establish an appropriate comparison, while the data may be hard to get and labour-intensive to analyse. Use of this measure encourages sacrifice of quality over quantity in its service providers. The unit costs may seem extraordinarily high, but deliver much better outcomes, which are more difficult to measure. Let's take, for example, a work placement program that pays a fixed amount for every participant placed in a job. Some participants in the program are able to be placed very easily, with minimal work by the contractor, while other participants require a much larger investment in order to become work-ready and find a suitable position. A fixed payment encourages contractors to focus on those that may have found work without any assistance, rather than find work for the most difficult to place, long-term unemployed. Once agreed upon, it is often difficult for supply cost increases to be recognised in the unit cost of service in a timely fashion. There needs to be appropriate flexibility of unit cost for differing circumstances. For instance, the provision of a particular service in a regional context is likely to be more costly than the provision of the same service in a metropolitan context. It is also not useful as an aggregate measure for an entire organisation where there are multiple services delivered.

4.13. Client/beneficiary satisfaction

There are many questions and questionnaires that measure client satisfaction.

When is this useful?

A charity may use measures of satisfaction to improve or promote their services.

When is this not useful?

If a charity has few or no clients, or it is inappropriate to measure their satisfaction, then this is not a useful measure to pursue. Client satisfaction may differ widely between mandatory and voluntary programs and vary depending on the type of services provided and the type of clients they are provided to. This measure may not reflect the relationship between all organisations and the people they assist.

4.14. Average wage of employees

$$average\ wage = \frac{total\ salaries\ paid}{number\ of\ full\ time\ equivalent\ employees}$$

When is this useful?

If a charity organisation is paying very high or very low wages across the board, this measure will show that. It can be used to compare the pay levels across different organisations. Of course, different organisations require different levels of skills and experience and these differences will show up in the average wage. However, a very high wage may give donors cause for concern over the true motivations of those working at the organisation.

When is this not useful?

An average wage reveals very little about how well an organisation is achieving its mission. This measure does not reflect the spread of employees over an organisation or their skills and experience. It also fails to differentiate between staffing mix and does not take into consideration the real lagging of wages in the charitable sector compared to the public sector and private sector. Additionally, such a ratio should be considered in the context of the staff churn experienced by an organisation as underpayment of staff causes the organisation to face staffing capacity risks.

4.15. Employee to volunteer ratio

$$employee/volunteer\ ratio = \frac{number\ of\ employees}{number\ of\ volunteers}$$

When is this useful?

This ratio is useful to understand how an organisation delivers its services. A large proportion of volunteers may also explain a high administrative ratio.

When is this not useful?

The mission of some organisations is much more attractive to volunteers or easily allows volunteers to contribute to it. Comparison between charities and even between activities within a charity may therefore reflect more about the volunteer activity than the organisation running it. This ratio also assumes a stable number of staff and volunteers and may not adequately reflect events that involve a large number of volunteers for a limited period of time, such as major community events or Christmas appeals.

4.16. Revenue

When is this useful?

Revenue is often used as a proxy for the size of a charity and can determine its category of reporting obligations.

When is this not useful?

When the assumption is made that revenue is a proxy for program effectiveness, innovation is stifled and smaller, more effective charities are crowded out of the funding pool.

4.17. Income growth

$$income\ growth = \frac{current\ year's\ income}{previous\ year's\ income}$$

When is this useful?

The growth ratio gives a quick comparison of year on year income. It is useful to examine the growth of income against the growth of costs in order to assess ongoing financial sustainability. It is preferable for income growth to maintain consistency with cost growth.

When is this not useful?

For organisations where a large proportion of income relates to a few payments, this ratio may be susceptible to the time at which it is calculated. For example, if a large fundraising ball is moved from June to July, then the growth ratio will give a picture of change that is misleading.

4.18. Days late with ACNC annual information statement

This measure does not exist, but could be considered by the ACNC.

When is this useful?

This is useful if the ACNC wants to encourage compliance and timely submission of statements. It is also useful to stakeholders who benefit from timely information regarding charities. The Charity Commission in the UK indicates with a green or red banner whether the charity has submitted their required documents by the deadline, a move that has had a significant impact on the number of charities that file their documents on time (Charity Commission, 2012).

When is this not useful?

This measure does not exist yet and may never exist if the data is not published by the ACNC. Accountants and auditors may be more likely to offer pro bono services to not-for-profits if the deadline for their accounts differs from other organisations. It is therefore beneficial to not-for-profits to delay or be flexible with the timing of submission of financial information if it suits their accountants. The ACNC will allow charities to report using a Substituted Accounting Period, which will enable charities to nominate a reporting date that is appropriate for them. It is also important to note that reports, where applicable, will be required no later than six months after a year end.

4.19. Domestic/international ratio

$$domestic/international\ ratio = \frac{domestic\ expenditure}{international\ expenditure}$$

When is this useful?

This ratio reveals the extent to which an organisation's charitable work is performed domestically. A ratio of greater than one means that an organization is more active domestically than internationally. The ratio may be relevant to donors that have a preference for the geographical destination of their contribution.

When is this not useful?

The ratio reveals nothing of what expenditure was on or in what country it was made, so is unable to assist judgements of performance or cost-effectiveness.

4.20. Methods for assessing social impact

The following table is a reproduction of the Social Impact section in the new economics foundation's [Comparing proving and improving approaches]() 2009.

Method/tool	Description	Potential benefits
AA1000 Assurance Standard	A standard for assessing an organisation's social, environmental and economic reporting process, with stakeholder engagement at its core.	• May be used by an organisation in preparing its social accounts/reports. • Helps those who assess social reports to address performance and impact issues. • Emphasises stakeholder engagement.
Co-operative Environmental and Social Performance Indicators (CESPIs)	A group of ten indicators to help co-operatives and other organisations determine how they measure up to co-operative principles.	• Can demonstrate to customers some of the benefits of co-operatives. • Standardised and straightforward. • Provides a first step for demonstrating that a co-operative organisation is living up to its values.
Eco-mapping	An accessible tool for analysing and managing environmental behaviour at an organisation's site(s).	• Allows an organisation to see where its negative environmental impacts occur. • A systematic, straightforward review to guide environmental improvement. • Free, and easy to understand.
Global Reporting Initiative (GRI) Framework	A holistic framework that guides an organisation's reporting on social, environmental and economic performance.	• Internationally recognised sustainability reporting, especially by large organisations. • Can be useful for improving comparability. • Supports and integrates with other tools, for example, Social Accounting, AA1000. • Flexible: can be adapted and used in different sectors.
Local Multiplier 3 (LM3)	A DIY method that shows the effect of an organisation's spending on its local economy. Demonstrates impact on local economy.	• Clearly highlights where local economic impact can be improved. • Quick and relatively easy compared to other forms of economic evaluation.
Prove It!	A participative method for measuring the effect of community projects (or other projects) on local people, on the relationships between them and on their quality of life.	• Measures how quality of life of communities and individuals change as a result of an organisation's endeavours. • Measures and documents outcomes. • Participative method helps build trust in the community.

Social Accounting and Audit	A framework to help clarify an organisation's values and objectives, report on performance against their objectives, and demonstrate social, environmental and economic outcomes/impacts, emphasising stakeholder engagement.	• Covers a full range of performance and impact issues. • Stakeholders' perspectives feed into the organisation's planning and measurement process. • Flexible – can be combined with other 'proving and improving' tools. • External verification of social accounts through auditing available on a consultancy basis.
Social Impact Measurement for Local Economies (SIMPLE)	A framework that combines internal strategic review with outcomes-based assessment to help managers of socially motivated businesses to visualise where and how they make positive contributions to society.	• A dynamic approach that embeds impact measurement and reporting into an organisation's processes and systems. • Sufficiently comprehensive and adaptable to meet the needs and circumstances of a wide range of social enterprises providing a strategic perspective that can be used to improve performance. • Practical in its application but based on a sound theoretical perspective.
Social Return on Investment (SROI)	A participative method for comparing the value of social, environmental and economic benefit created by an organisation/initiative with the investment needed to create that value.	• Robust method for a comprehensive assessment of an organisation's outcomes. • Stakeholders' perspectives feed into the organisation's planning and measurement process. • External verification of SROI analysis available. • Makes visible trade-offs between competing demands for resources.
Volunteering Impact Assessment Toolkit	A self-assessment exercise for organisations involving volunteers to gain a clearer understanding of the impact of volunteering activity on key stakeholders.	• Repeated use can help track progress by comparing results over time, as well as exploring positive and negative, intended and unintended impacts of volunteering activity. • Consists of a set of readymade core and supplementary questionnaires. • Can communicate internal benefits of volunteering and capture external feedback from users and clients.

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