Third Sector

Kate Sayer: The best metrics for a charity are outcomes for beneficiaries

27 March 2018

Assessing a charity's efficacy requires more than a look at its financial performance, writes our columnist

Kate Sayer

New trustees, often freshly retired from the business world, nearly always say something along these lines: "Surely there are some simple metrics to show us how the charity is performing."

Charities also produce an odd-looking document to replace the profit-and-loss account. It is hard for those used to the corporate world to adapt to charities. To be fair to them, they have a point.

Charity performance is difficult to measure, but you cannot just measure charities on their financial performance. In fact, a charity making large surpluses and holding large reserves is probably not performing well, because it should be applying its resources to its objects. But it might have a plan to build up reserves for a purpose, so we need to know what the strategy is.

Typical business metrics can be unhelpful. For example, trustees often wonder why so many staff are employed, but a charity delivering services does so through staff – it is more like the NHS and everyone understands that you need front-line staff.

> Rather than talking of admin as a cost burden, emphasise that these skills enable all the charitable work to happen

Beware the next pitfall: some staff, like nurses, are "good"; others, such as administrators, are "bad". We know we need someone to pay the wages, answer the phone, organise trustee meetings and evaluate the programmes, yet we tend to lump all these together as overheads, or management and administration. Rather than talking of these areas as a cost burden, we should emphasise that these are the skills, knowledge and resources that enable all the charitable work to happen.

Low admin costs are not necessarily an indicator of efficiency. A ratio of direct charitable expenditure as a proportion of income is often cited as a reasonable performance indicator to apply to all charities, but it can be flawed: relevant income must be used and expenditure identified appropriately. Driving down admin costs is likely to drive down governance and management standards, and is not sustainable. Some charity models are inherently cheaper, such as grant-making. New charities building fundraising operations will look expensive because the return will come in future years. It depends on purpose, model and how the charity operates.

Switching the focus to outputs makes much more sense, so look at the number of beneficiaries reached. The problem here is that some beneficiaries need a great deal of help, others only a light touch, so simple numbers might not be a good indicator. We need a combination of financial and non-financial information to understand the problem the charity is trying to solve, the approaches adopted, what those activities cost and the outputs or, even better, the outcomes achieved. We can start to build a picture of what a good performance looks like by seeing the outputs or outcomes achieved for the money spent.

To judge a charity's performance, ask it what outcomes it has delivered to beneficiaries and how much it cost to deliver those outcomes.

Kate Sayer is senior consultant at specialist auditors Sayer Vincent

Topics: FINANCE KATE SAYER GOOD PRACTICE