



MEASURING THE EFFICIENCY OF THE CANADIAN CHARITABLE SECTOR



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EXECUTIVE SUMMARY

This Report presents an analysis of the efficiency of the Canadian Charitable and Philanthropic Sector in providing its goods and services to the public.

The analysis reflects data for charities that have filed financial reports to the Canada Revenue Agency for their financial year-end for each of the five years from 2016 to 2020. Excluded from the analysis are charities directly involved in the provision of Education and those with a Religious purpose.

Our analysis excludes charities that were still to file their 2020 financial report (charities have six months from their year-end to file). Our universe of charities for 2020 includes approximately 62 per cent of eligible charities. We believe this is a good representative sample to draw valid comparative conclusions in 2020.

Measures of efficiency give an indication of the financial cost to produce a specific level of output. The less the cost of production per unit of output, the more efficient is the process. Thus, for a given level of resource in-put, the more output will be attained.

For the Charitable Sector, measures of efficiency give insight into how much an organization, or collectively the Sector, can spend to deliver a social good relative to the amount of time, money and other resources needed to produce it.

We present an analysis of seven key measures of efficiency for the Charitable and Philanthropic Sector:

Measures of Operating Efficiency

- Total Expenses to Total Revenue (Operating Ratio)
- Management Expenses to Total Revenue
- Management Expenses to Total Expenses
- Management Expenses to Expended on Charitable Activity

Measures of Management Efficiency

- Compensation to Total Expenses

Measures of Fundraising Efficiency

- Fundraising Expenses to Fundraising Revenues

Efficiency in Delivering Social Goods and Services

- Expended on Charitable Activity to Total Expenses

Principle conclusions of the Report

- Over the past five years, there has been a marginal decline in the Operating Ratio of Canada's charitable sector indicating the Sector has grown marginally more efficient.
- The high Operating Ratio of approximately 98.5% shows that the Canadian sector is efficient at spending its total resources for its stated purpose and is not overly challenged to do so.
- The decreasing ratio of Management Expenses to Total Revenue over 5 years shows that Revenues are increasing at a faster rate than management expenses. Coupled with the previous measure which shows a relatively consistent Operating Ratio, we can ascertain that the Charity Sector is becoming more efficient
- The results for the Canadian Charitable and Philanthropic Sector for the past five years show that a declining percentage of expenses is allocated to management expenses. This confirms our results that the Charity Sector is becoming more efficient.

- Although the results for Management Expenses to Expended on Charitable Activity have fluctuated over the past five years, it appears the Charitable Sector has marginally improved its efficiency in delivering its social goods or services. In the worst case, the Sector has been consistent at providing \$100 of goods and services for approximately \$10.50, though there is the potential that this cost could be declining to below \$10.
- Compensation expenses as a percentage of total expenses has been fairly consistent over the past five years with a noted increase in 2020. The latter could be explained by the emergence of the global COVID health pandemic
- Fundraising Revenue to Fundraising Expenses has fluctuated considerably over time. The high value of this measure shows that there is little net revenue gained by the Charitable Sector in holding fundraising events.
- There has been a noticeable decline in the Expenditure on Charitable Activity to Total Expenses over the past five years. It appears that the Sector has become less efficient at delivering its social goods and services relative to the costs it is incurring to provide those social goods and services.
- We compare our efficiency measures from the Canadian Charitable Sector to that in the United Kingdom, the United States, and Australia.
- In general, this international comparison reveals that whereas the efficiency measures are broadly similar across these international markets, Canada is marginally more efficient in measures of operating efficiency.
- However, Canada lags materially on the Expended on Charitable Activity relative to Total Expenses. The U.S. leads by a material margin on this measure of efficiency. This area needs further attention by the Canadian Charitable and Philanthropic Sector in the future.

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UPCOMING RESEARCH REPORTS

October 2021: Growth Analysis of the Canadian Charitable Sector
 November 2021: Gifts-in-Kind Analysis
 December 2021: The Use of
 External Fundraisers in the Charitable Sector



Our Vision

We will participate in a thriving Canadian philanthropic sector where the most impactful charities with the highest governance standards are celebrated and supported by donor capital.

Our Mission

The Veritas Foundation aims to be Canada's authoritative source for participating in the country's charitable sector and evaluating its effectiveness and impact.



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