



## How Much Should a Canadian Registered Charity Spend on Administration?

By Mark Blumberg<sup>1</sup> (September 22, 2018)<sup>2</sup>

It is not easy to determine which charities are deserving your support. There are 86,000 registered charities in Canada. Some are small volunteer groups. Some are large hospitals. They cover many different areas including education, religion, social services, health care and the environment.

We have had a battle going on in the philanthropic area with some arguing that there is no value in counting administrative costs and overhead and that it tells you nothing about a charity. On the other side, you have some donors who think that overhead ratios are the best way to determine which charity deserves their support. Both sides are very wrong and both extreme positions are potentially dangerous to the sector.

Essentially Canadian charities report on the T3010 all expenses as falling into the following categories:

- 1) charitable activities carried on by the charity,
- 2) gifts to other registered charities/qualified donees,
- 3) management and administration,
- 4) fundraising,

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<sup>2</sup> This article is based on a 2008 article "How Much Should A Canadian Charity Spend on Overhead such as Fundraising and Administration?"

- 5) political activities, and
- 6) other.

They also report the same funds on categories of expenditure such as travel, compensation costs, advertising, memberships, occupancy costs etc.

There is another broader concept than “administration” and that is called overhead. “Overhead” can be defined as the ongoing expenses of a charity which cannot be directly attributed to any specific charitable activity, but may still be necessary for the charity to function. If charitable expenditures are categories 1 and 2, then overhead are categories 3-6.

With the elimination of the 80/20 expenditure requirement in the [2010 Federal budget](#), many Canadians are asking increasingly how do we evaluate charities and which ones are deserving of support? One of the indicators that is suggested is “overhead” and we will look at whether this is a good indicator of the efficiency and effectiveness of a charity.

In 2009, the Charities Directorate of the CRA released their [Fundraising Guidance](#) and it sets out expectations for registered charities with respect to fundraising. It was subsequently revised and simplified in 2012. Although fundraising is part of overhead, in this article I am going to focus on the administration part of overhead and not on fundraising because there is detailed CRA guidance on what is acceptable and what is not when it comes to fundraising. Anyone interested in the fundraising issue should review the Fundraising Guidance and it is especially important that staff and volunteers who are involved with fundraising, governance or completing the T3010 Registered Charity Information Return read the Fundraising Guidance. However, the Fundraising Guidance is not, and does not purport to be, a comprehensive tool to evaluate the effectiveness of a charity generally, as it only deals with fundraising conduct, practices, ratios and allocation. My expectations, and I suggest this to donors, is that when it comes to fundraising, donors at least expect that charities are complying with the requirements of the fundraising guidance.

CRA spends little time discussing administrative costs for charities. This is unfortunate as some portion of the administrative costs borne by charities relate to requirements under the Income Tax Act. In certain cases, the failure of charities to keep adequate books and records and provide proper disclosure in annual filings can be attributed to charities not taking these administrative tasks seriously enough and not investing in having the right systems and people to accomplish them.

The CRA minimally discusses administration in the guide to the T3010 called [Completing the Registered Charity Information Return](#):

**Line 5010** – Enter the part reported on line 4950 that represents management and administrative expenditures. These may include expenses for:

- holding meetings of the board of directors;
- accounting, auditing, personnel, and other administrative services;
- buying supplies and equipment, and paying occupancy costs for administrative offices; and
- applying for grants or other types of government funding, and gifts from other qualified donees (usually foundations).

Some expenditures can be considered partly charitable and partly management and administration, such as salaries and occupancy costs. In these cases, divide the amounts accordingly between lines 5000 and 5010. Expenditures must be allocated consistently and on a reasonable basis.

One day I am hoping that CRA will provide more guidance to the public so that both charities and donors understand the importance of certain administrative tasks and that there may be costs associated with doing them properly. I think CRA's view on the matter would be more meaningful or convincing to the public than the individual opinions of charities or even umbrella organizations in the charity sector.

In the US, and to a lesser extent in Canada, some services have ranked charities based on the percentage spent on "charitable activities" or the "mission". One reason that these ratios are popular is that it is a calculation that is easy to make that involves total expenditures of the charity versus total amount spent on charitable work. This calculation is certainly easier to work out than whether a charity is "effective" or is having an "impact". While overhead ratios are interesting, these ratios usually hide a lot more than they reveal.

The biggest problem with relying on overhead is that the numbers are very unreliable. Most charities are run by well-meaning volunteers. They often do not properly understand the distinction between administration and charitable activities. Sometimes they include obviously charitable work in administration, but more often than not they include administration in charitable activities. This, more than any other factor, can sometimes account for the differences in overhead numbers. Even if the volunteers or staff understand the distinction, mistakes are made on the T3010 Registered Charity Information Return filings and sometimes further mistakes occur when CRA inputs the information. In addition to these differences, there is not as much consistency in accounting standards relating to charities as there should be. I think it is fair to say that two charities could be treating the same expense very differently. About 2/3 of registered charities identify themselves as having no fundraising costs and about a 1/3 as having no management and administration expenditures. While it is not impossible for a charity to have no overhead, it is a little suspicious that so many claim to have none. According to the T3010 data, most charities do not spend a dime on professional services which

includes accounting and legal. You can review the T3010 filing of any registered charity at the CRA's Charities Listing, however, another resource which is far easier to use is [CharityData.ca](http://CharityData.ca).

Blumbergs created [CharityData.ca](http://CharityData.ca) with the help of some developers and [The-Wire](http://The-Wire) to provide the largest Canadian registered charity information portal with up to 15 years information on every Canadian registered charity. CharityData.ca provides an easy to use interface that is far easier to use than the CRA's Charities Listing to analyse T3010 Registered Charity Information Return data on a particular charity. It also allows the user to sort charities under "[Advanced Charity Search](#)" by over 30 criteria. While it is easy to see what gifts a charity gives to other charities on the CRA website, what if you want to know which charities gave funds to a particular charity? Now you can do this on CharityData.ca by looking under the "Fundraising" tab. Knowing this information can sometimes also give you clues as to who might control a particular charity that you are contributing to. The [Director Search function](#) of CharityData.ca also allows users to search over 600,000 directors by their first and last names and it is the only publicly available and up-to-date tool for searching charity directors. The portal is free for users and its aim is to increase transparency in the Canadian charity sector. For the most up-to-date information on a particular charity, including whether a charity is still registered, you should use the CRA Charities Listing. However, for analyzing the past data and trends with a charity or in an area CharityData.ca is much easier to use. Charitydata.ca is a tool, but it also does not solve the problem of working out which charities are worthy of support. It does help to understand some important information on charities and the types of questions or discussions that you might want to have with a charity if you are for example making a major gift.

The problem with relying on one simple indicator like administrative costs is that you can easily be very wrong and the results can be pretty awful. Unfortunately, large charity scams often have great overhead "ratios" either because they count non-charitable expenditures as charitable or because they inflate the fair market value of the work that they do, or both. A group that claims to be very efficient and spending 95% on charitable activities and lauded by financial papers may in fact only be spending less than 1% on charitable activities. This is a technique used by some abusive charity gifting tax shelter schemes to make their numbers look good and many tens of thousands of people, including people with very strong financial and business backgrounds, have been duped by following simple ratios, relying on misrepresentations from charities and professional advisors and not doing their homework.

Even comparing two legitimate organizations' ratios can be deceiving. For example, I was at a conference on NGOs about 15 years ago and attended a lecture on measurement and effectiveness of charities. The presenter was a top measurement consultant who has done work for major US foundations. The presenter pulled from the

US site, GuideStar, two charities that operate in the same sector and the same city – charity “A” which spent 25% on overhead and charity “B” which spent 10% on overhead. The presenter asked the audience which charity they would support if they were a donor or a funder. Almost everyone raised their hand to support Charity “B”. The next slide from the presenter contained more information on charities “A” and “B” and how the low overhead charity was not nearly as effective, had no reserves, had low staff morale, was in financial trouble and was considering its options for merger or being wound up. Now which charity are you going to support?

Further concerns with the use of the overhead ratio include that there is tremendous variation among charity types in Canada. Some are big, others small, some rural and others urban, some work locally, others nationally or internationally, some deal with high profile and sympathetic issues like children’s health and others deal with important but lower profile issues, some are newly setup, others have been around for a long time and have faithful supporters. Charities have different missions and some carry out direct charitable activities while others are umbrella organizations or foundations and do not directly carry out charitable activities. All these factors can affect overhead.

Some groups, especially small ethnic or religious groups, can keep fundraising and administration costs very low (1%-5% range) but they are sometimes all volunteer groups that work within one small community and there may be issues of transparency and accountability and even of the sustainability of the organization if the volunteers curtail their efforts. They may be doing a good job or a poor job – but sometimes you have no idea. Also, some enterprises lend themselves to small operations, while others do not. For example, it would be a ‘challenge’ to run a full service urban hospital with only volunteers and no overhead and you probably would not want to be treated at that hospital!

A recent [study](#) by North Carolina State University of 666 Habitat for Humanity affiliates in the US looked at their charitable impact and efficiency using programmatic and overhead data as well as how many houses were offered to low-income individuals. The study concluded that overhead ratio was negatively correlated with efficiency scores. Organizations with very lower overheads were less efficient in their work. The study concluded that donors should not use low overheads as a proxy for working out which charities are effective or efficient.

In my experience, transparency and accountability are cost money. Putting out an annual report takes time and money. Communication with stakeholders and other interested groups costs money. Having a website costs money. Having proper financial controls costs money. Regularly monitoring activities and evaluating those activities is more expensive than dispensing with the monitoring and evaluation and just doing the program

over and over again because you have always done so. Having an office with a proper filing system costs money.

It is cheaper to keep records in a donated basement and it may work until there is a sewage backup or basement flood. Trying to have a charity operate within the legal and accounting rules is more expensive than just ignoring them. Avoiding almost all legal and accounting fees may seem like a good idea until it results in a problem or risk/liability that requires an expensive solution. Paying people a living wage is more expensive than exploiting them. With such a large part of our society working for non-profits and charities, if the jobs did not compensate people properly, ten percent of our population would be worse off. Good corporate governance such as regular board meetings takes time and costs money.

People are concerned with privacy. Putting in place privacy protections and security of computer networks cost money. If you want properly run organizations, there are costs associated with that. It is easy to cut costs, but there is usually an associated trade off.

If one is a cynic, one could say that it is simple to reduce overhead for non-profits and charities in Canada – fire the people checking that funds are being spent appropriately; don't provide your employees with the resources they need to efficiently do their jobs; pay your employees and contractors a below living wage; get rid of all insurance; don't replace ageing or defective equipment; use exploitative and manipulative fundraising techniques that in the short term may yield results even if undermining your organization and the sector; hide expenses in affiliated entities or donor entities; and of course massage the financial numbers if the aforesaid strategies don't yield enough results. But none of these are desirable.

Some charities may be able to have overhead of 10%-15%, but many will quite legitimately have higher overhead expenses, including administration and fundraising, more likely in the range of 20%-35%. You need to look closely at the individual charity, how it is operating and what it is spending money on. It may be that a charity with 20% overhead should be spending 25% while another charity with 15% overhead probably should be at 10%. You don't want to support charities with extravagant spending as has been profiled by newspapers such as the Toronto Star. On the other hand, you don't want to encourage a charity to use a 9-year-old computer to keep sensitive health information on it just to avoid spending more on administration.

We should also remember that reasonable overhead begins with us. If we donate to a charity without even being solicited, then we are helping keep its overhead down. If we make a few big donations, instead of a large number of small donations, we are also reducing the cost of processing the donations. If we are demanding and make all sorts of requests of charities to send us information that we could just as easily find on their

website, then we are wasting their resources and increasing their overhead. If the only way we support charities is by going to elaborate fundraising dinners and special events, then we should not be surprised that a charity has high fundraising costs.

Relying on one funder can reduce overhead ratios, however, reliance on a donor or funder can be calamitous to the charity's programs if the donor or funder stops funding or starts imposing restrictions.

It is a little ironic some major donors who don't want their money spent on "administration" are the ones who make the most costly administrative demands. Providing restricted funds, like a perpetual endowment, means that a charity has to spend money in perpetuity. It means the charity has to spend money to invest the money, spend money monitoring the investments and the income and then dribble out the money each year and change the program each year to accommodate a different budget depending on the investment income. Also, sometimes large donors make large demands on charities that may undercut the ability of the charity to do what charities should do best - be nimble and creative in solving problems.

Many charities in this position are interested in diversifying their sources of revenue and, yes, diversification comes with a cost. It is cheaper to have one angel of a donor or funder who gives you everything you need, but being so reliant on one donor or funder comes with huge risks. Many charities are trying to 'invest' in acquiring new donors with the hope that there will be a payoff down the line. Some types of fundraising costs 50c on the dollar. But over a five-year period perhaps the cost of acquiring that donor is only 10c on the dollar. Government and foundation money may be cheaper to get than the small donations, but government and foundation funds come with strings attached and as governments and foundations change their priorities, they may not be prepared to fund a charity's program anymore. As well, many funders require that the charity match funds that the funder is contributing.

Different types of fundraising require different resources and have different costs associated with them. One of the reasons I like planned giving, especially bequests, is that the costs of obtaining funds through bequests are often in the 1%-5% range compared to other types of much more expensive fundraising like telemarketing or special events. Many charities need to sit down and think about how over the next few years they can do more in the low-cost area (e.g. bequests, third party volunteer events, internet and major gifts) and less in the high cost areas.

It is not helpful to completely ignore overhead because of the shortcomings identified above, but it also not helpful to encourage charities to slash overhead so that they have a better ratio.

Unfortunately, despite what some people say, there is no easy way to determine what is an efficient and effective charity. My suggestion is that for average donors, instead of fixating on ratios, pick one or two organizations that you care about and help them by volunteering. There is nothing like volunteering to see whether a charity is effective and actually making a real difference in people's lives. Also, because a charity is not perfect does not mean that it should be discarded. Whether by bringing in new volunteers, new sources of revenue or new technology there are hundreds of ways that a charity can be made better. Also, here is a [whole microsite](#) that I created to discuss smart giving which has [dozens of ideas of how to more effectively give to charity](#).

For larger donations to organizations we work with philanthropists to understand issues or questions that they should ask prospective charities based on their filings and documents in the public record. I recently provided a 15 hour workshop to a large Canadian government department that gives away over \$3 billion per year to help them understand how organizations actually work, what due diligence is effective and how should grants be structured to achieve maximum impact.

The US Better Business Bureau suggests charities should spend about 35% or less on fundraising and administration. That seems reasonable for many organizations although there really is no reason for that exact percentage. I would also point out that since many members of the public have an expectation that overhead will be substantially lower than 35%, charities should explain the reasons for their overhead costs in the same passionate way that they explain why they spend money on their mission so that the public can be informed of the overhead requirements of the charity.

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