

# CHARITIES AND ADMINISTRATION COSTS



A factsheet jointly produced by the ACNC and the Queensland University of Technology

One of the biggest concerns people raise about donating to charity is whether their money is going towards the cause the charity is set up for. Aside from doing some checks to make sure the charity is legitimate, people also ask whether all of their donation will be used directly for those in need, not administration.

This factsheet sets out the realities of trying to judge a charity by how much it spends on running costs.

## What are administration costs?

Generally, the 'administration costs' of charities are understood to be costs that are not directly incurred by charities in delivering charitable services. The relationship between administrative costs and total costs of running the charity is often expressed as a percentage of the total costs of the charity.

In Australia, there are no standards or clear definitions to guide which of the charity's costs should be classified as 'service related' and which should be classified as 'administration'. In the absence of any such standards or guidelines, information about administrative costs is not comparable and often misleading.

## Why do people want to know about charity's administration costs?

It is believed that making this information available gives the public a sense of which donations are 'making a difference' in the community. There can be a perception that charities that spend a higher proportion of funds on administration are less worthy than those that have low overheads.

It is better to pay attention to other factors of nonprofit performance: impact, transparency, governance and leadership, as well as costs.

## How useful is information about administration costs?

The main problem with using administrative costs to inform decisions about which charities to support (including how 'worthy' particular charities are) is that the information is an unreliable indicator of the extent to which actual donations make a difference in the community.

Some charities make a real difference in the community and have relatively high administration costs, and some charities may be less effective but have low administration costs.

For example, a charity that provides services in the inner city may pay higher rent than a charity that is able to base itself in

a cheaper suburb, but that doesn't mean that the first charity is 'wasting' money. Similarly, a charity that spends money on evaluating its programs to improve them may make a bigger difference in the long run than a charity that does not assess its programs. Looking at what a charity achieves with its funding gives a better picture of its work than looking at financial information alone.

## Is there a clear way of measuring and comparing charity administration costs?

Aside from failing to provide a reliable way to measure worthiness, there is a technical reason why relying on administrative cost comparisons is unsound. As said earlier, in Australia there are no standards or clear definitions to guide which of the charity's costs should be classified as 'service related' and which should be classified 'administration'.

In the absence of any such standards or guidelines, charities commonly implement 'cost centre accounting' procedures to provide internal management information, but these arrangements vary greatly between charities.

For example, a charity may employ a person to answer their phone and do a range of administrative tasks. If this role includes answering phone calls from donors, how should the charity classify the wage costs? As there is no standard or clear definition about classifying administrative costs, the different approaches that could be taken mean that similar costs may not be comparable across different charities.

There are a number of factors that will affect which charity you may decide to donate to – don't rely on one alone, particularly if it may not be a true measure of the value of a charity's work.

## More information

You can find more information about administrative costs and the partnership between QUT and the ACNC at [acnc.gov.au](http://acnc.gov.au) or by calling 13 ACNC (13 2262).

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