



## Top Tips



# Calculating the cost effectiveness of fundraising

## Governance



**This guide will be useful for:** organisations to establish a formula for fundraising that attains the best return on investment.

### What you want to achieve:

A greater understanding of those fundraising activities which generate the best return for your organisation. ✓

### What you'll need:

- Calculator ✓
- Information about staff salary costs ✓
- Knowledge of the money raised from different activities ✓

### How you'll do it:

- Trustees have a responsibility to ensure that charitable funds are used **prudently**. **This includes checking on the cost effectiveness of fundraising activities.** What are your most successful fundraising activities? How do you know?
- **Comparing the cost effectiveness of fundraising activities** means you can make decisions on where to invest charity resources in future fundraising activities, and which activities you can let go.

- If you just look at the income generated by fundraising activities, without comparing this to the cost of those activities, then you are only looking at half a picture. For example, a fundraising appeal to your supporters may have brought in a certain amount, but perhaps the income raised was completely offset by the costs of staff time invested in running the appeal. **Developing an accurate picture of fundraising expenditure aids decision-making.**
- **Fundraising costs vary from activity to activity and from organisation to organisation.** Some organisations find it much easier to raise funds from the public than other, perhaps because they have a bigger donor base, are a more popular cause, or have simply been around for longer.
- It's important to remember that there can be an **'intangible value'** to some of your fundraising activities. So although it is important to know the cost effectiveness of your fundraising activities, decisions about whether to continue some of your activities may be based on intangible value rather than actual money raised. For example, some of your activities may contribute to **'goodwill', 'awareness-raising and good publicity', 'cultivation of new donors and supporters', and 'thanking existing funders and volunteers'.**
- **To calculate cost-effectiveness,** use a simple formula such as:  

$$\text{total funds raised} - \text{total fundraising expenses} / \text{cost of activity} = \text{total fundraising Net value.}$$
- **Remember to include all of the costs involved in fundraising.** Depending on the fundraising activity this may include costs such as: venue hire, printing, catering, staff time co-ordinating the activity or researching and writing a grant application. If a staff member spent approx. 20% of their time on fundraising activities, then include the appropriate figure in the calculation.
- Cost effectiveness can be expressed as a ratio or multiplier e.g. 50% or 2:1, for example:
  - For every £10 raised, £5 (or 50%) has been spent raising it.
  - For every £5 spent on fundraising, £10 has been generated as income.

This is often referred to as the **'Return on Investment'** or ROI of an activity.

- **When thinking about cost-effectiveness** it's useful to remember that some fundraising activities may be focused on short-term results (such as a bag pack at the supermarket), while others may be medium term (fundraising applications to trusts or the Lottery), and yet others may be long-term (such as legacies).

## Connecting Communities in Wales

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