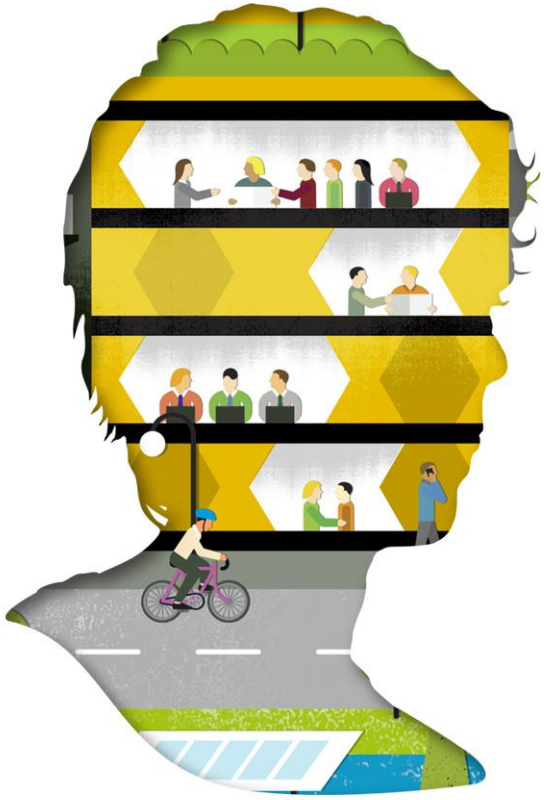
Cost reduction and quality improvement in NFP back-of-house services



Centre for Excellence
in Child and Family Welfare

20 April 2012

nous group

Agenda

1. Why benchmark?
2. The NFP Benchmarking project
3. An overview of NFP back-of-house service cost and quality
4. Human resources
5. Payroll
6. Finance
7. Fleet
8. Information Communications and Technology
9. Compliance
10. Project impact

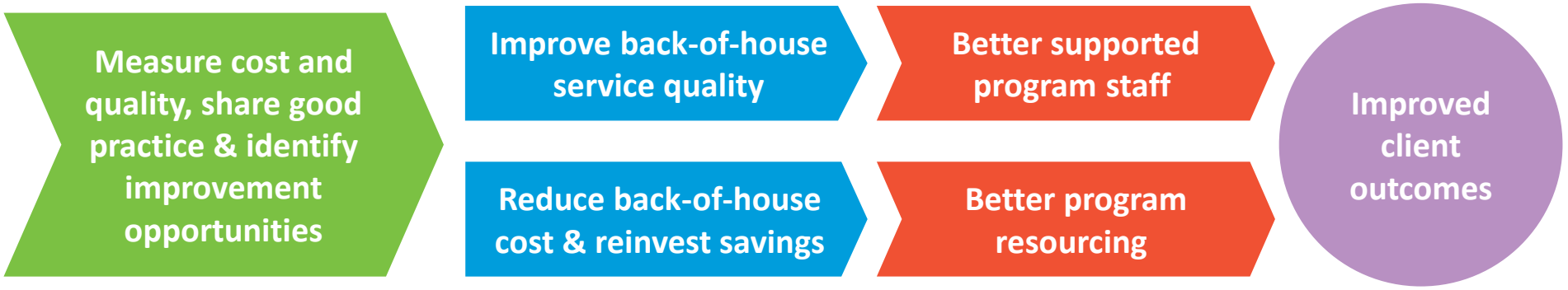
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1. The cost and quality of an NFP's administrative and support services directly affect its capacity to deliver critical services to people in need.

Improving back-of-house services can provide two direct benefits.

1. More efficient administrative and support services increases available budget for front-of-house service delivery
2. High-quality administrative and support services frees up staff to spend more time helping clients.



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10. Next steps

2a. Thirteen Victorian NFPs committed to creating back-of-house benchmarks for the NFP sector

The dedication of many staff in each of these organisations as well as the generous commitment of supporters and donors have this project possible.

MacKillop family services
Anglicare Victoria
Berry Street — Since 1877 — We never give up
Brotherhood of St Laurence
cafs
Connections — child, youth and family services
Hanover — HOUSING - SUPPORT - RESEARCH
Jesuit Social Services — Building a Just Society
Melbourne Citymission — Building Inclusive Communities
UnitingCare Orana
Relationships Australia Victoria
St Luke's
Windermere — everyone is someone in our community

Donors

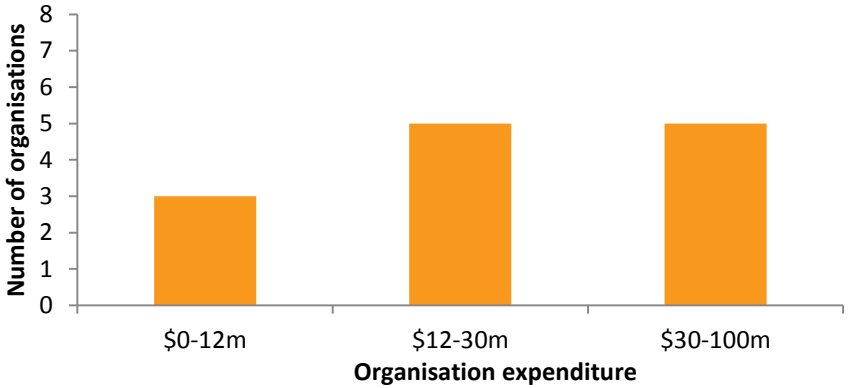
Helen Macpherson Smith Trust
The Ian Potter Foundation
The Jack Brockhoff Foundation
The Myer Foundation
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External partners

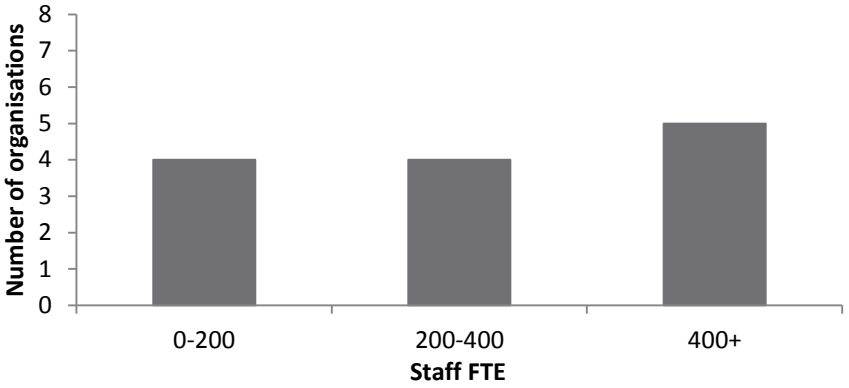
QUT — Queensland University of Technology — The Australian Centre for Philanthropy and Nonprofit Studies
Centre for Excellence in Child and Family Welfare Inc.
Office for the Community Sector
VCOSS — Victorian Council of Social Service

2b. Participating organisations offered a good spread of size and diversity across the NFP sector.

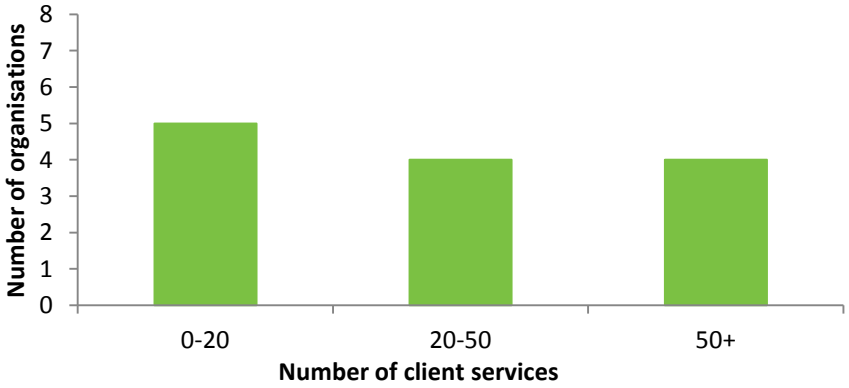
Diversity of organisations by organisation expenditure



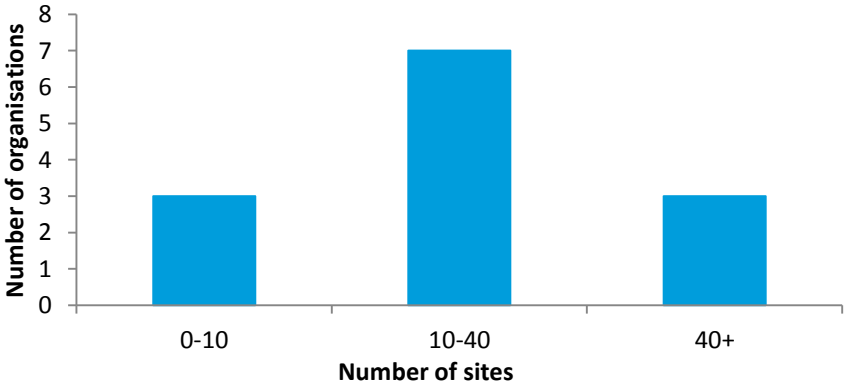
Diversity of organisations by FTE (both permanent and casual)



Diversity of organisations by number of client services (as defined by each organisation separately)



Diversity of organisations by number of sites



2c. Five back-of-house services and the burden of compliance in four funding agreements have been benchmarked

Back-of-house services:

1. Human resources (including training)
2. Payroll (and salary packaging)
3. Fleet
4. Finance
5. Information and communications technology

Compliance (quality accreditation, reporting, financial audit & acquittal & partnerships effort):

- Integrated family services – DHS Vic
- Out-of-home care – DHS Vic
- Family Relationships Services – FaHCSIA
- SAAP – DHS Vic

Project timeline



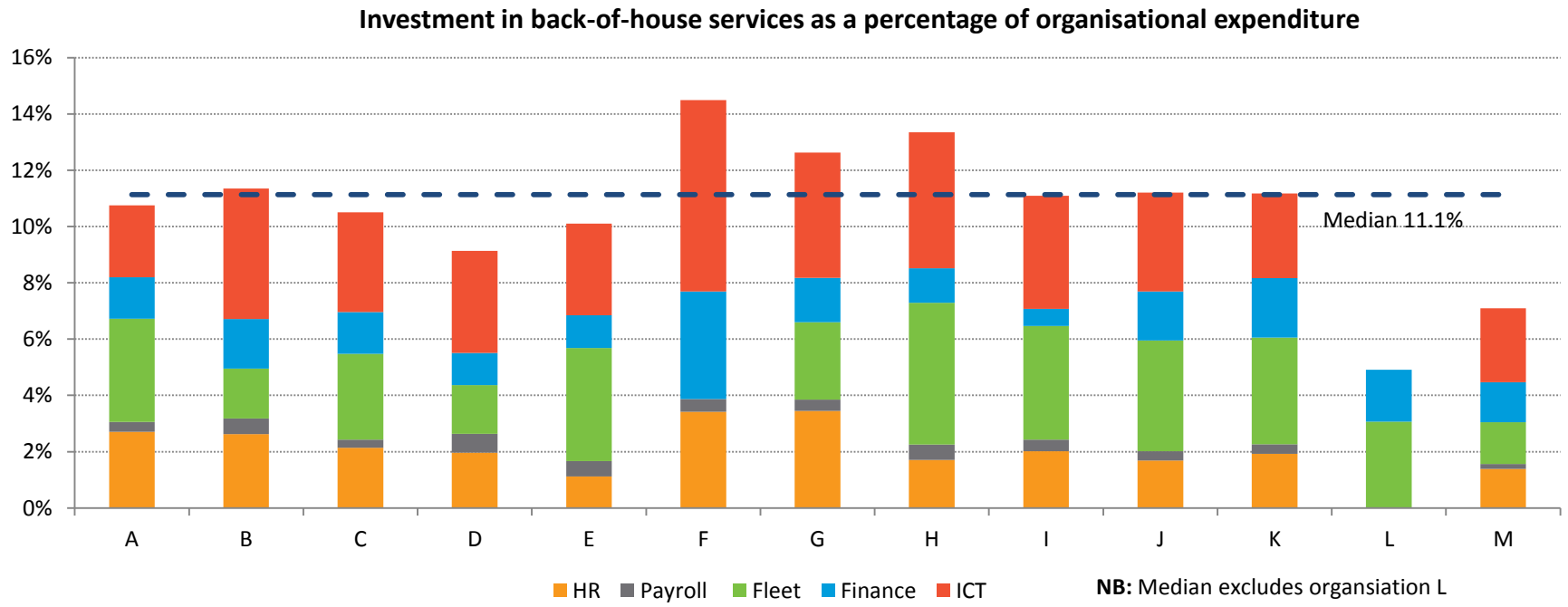
2d. Important qualifiers must be kept in mind when considering the benchmarks.

- **Service quality and cost must be considered in tandem** – but data on service quality can be difficult to obtain.
- **Some figures have been estimated –** staff were instructed not to spend too much time gathering data as this reduced the time they had to provide high quality services.
- **Greater investment in services per FTE does not necessarily indicate inefficiencies –** e.g. an organisation may have deliberately chosen to substantially increase investment in professional development in an effort to decrease staff turnover.
- **Low cost does not necessarily equate to good practice**. A number of organisations that reported low costs qualified their results with statements like: *"we are only low cost because most of our equipment is beyond end of life and we are making-do with limited staff numbers. Our satisfaction ratings are higher than they should be because staff know that we are doing the best we can with what limited resources we have – other organisations should not try to emulate us even though many of our cost KPIs look good on paper*".

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3a. Investment in back-of-house services ranged from 7.1% to 14.5% of organisational expenditure



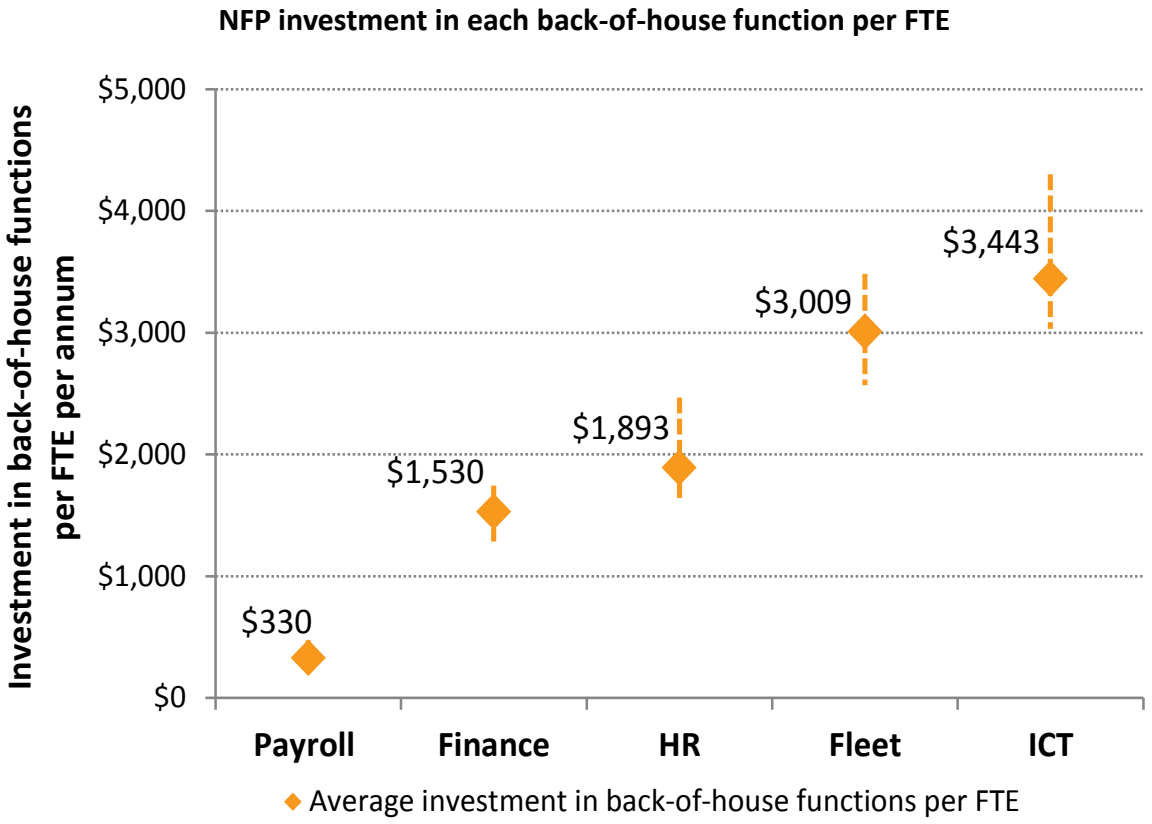
Note:

Definitions are critical. Detailed instructions guided organisations as to what should be included and excluded on an activity-by-activity basis. At the highest level, all staff time has been costed irrespective of whether or not the staff member is situated in a 'back-of-house' team*, depreciation rather than capital investment has been used, GST is excluded, etc.

**Except HR, where only the cost of HR staff effort has been included*

3b. Organisations invested an average of $9,949 per FTE across the five back-of-house functions.

The bars below show the spread of investment per FTE in the middle 50% of organisations (i.e. typical organisations).



Investment depends on factors such as:

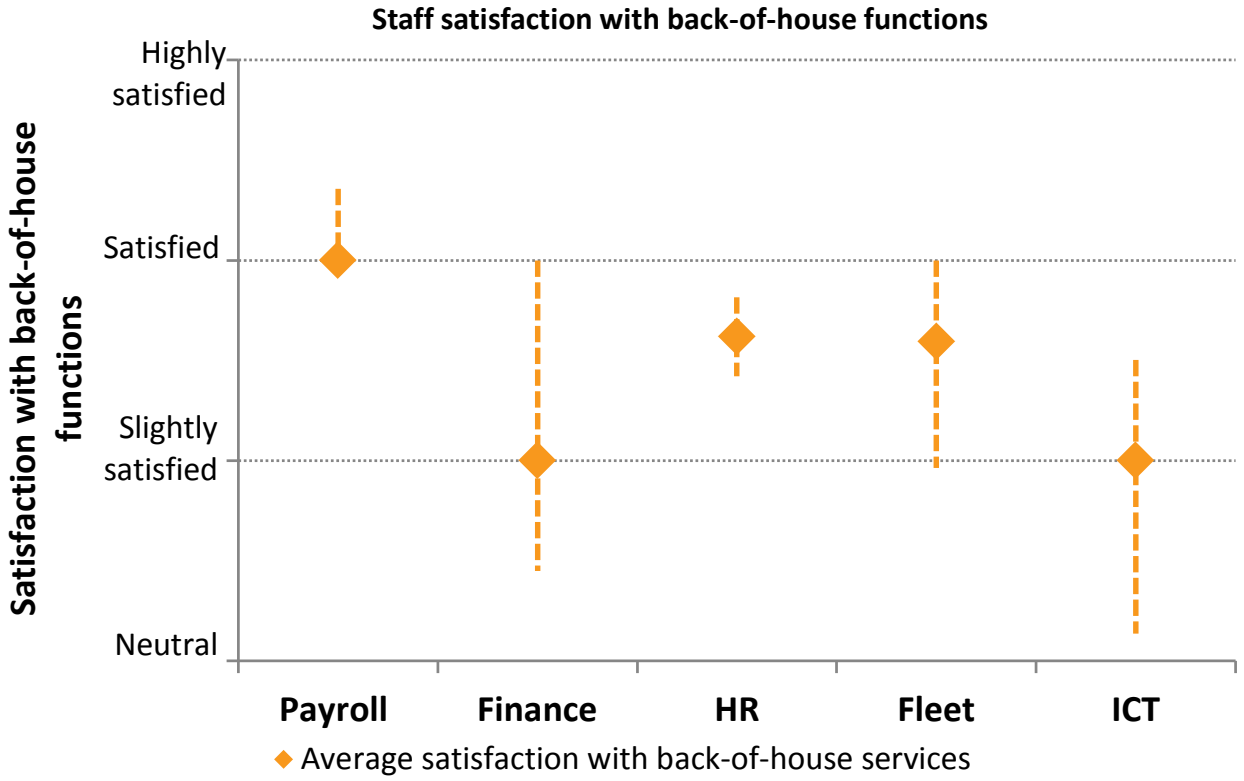
- How important the service is to the organisation (and therefore the scope and quality of service that is provided)
- The efficiency of the organisation in delivering the services (larger organisations may have scale efficiencies not available to smaller organisations).

Low cost does not necessarily equate to best practice!

But it is a useful and informative measure.

3c. Staff satisfaction across the five functions also varied; ICT and finance have the lowest average satisfaction levels.

The bars below show staff/management satisfaction with services in the middle 50% of organisations.

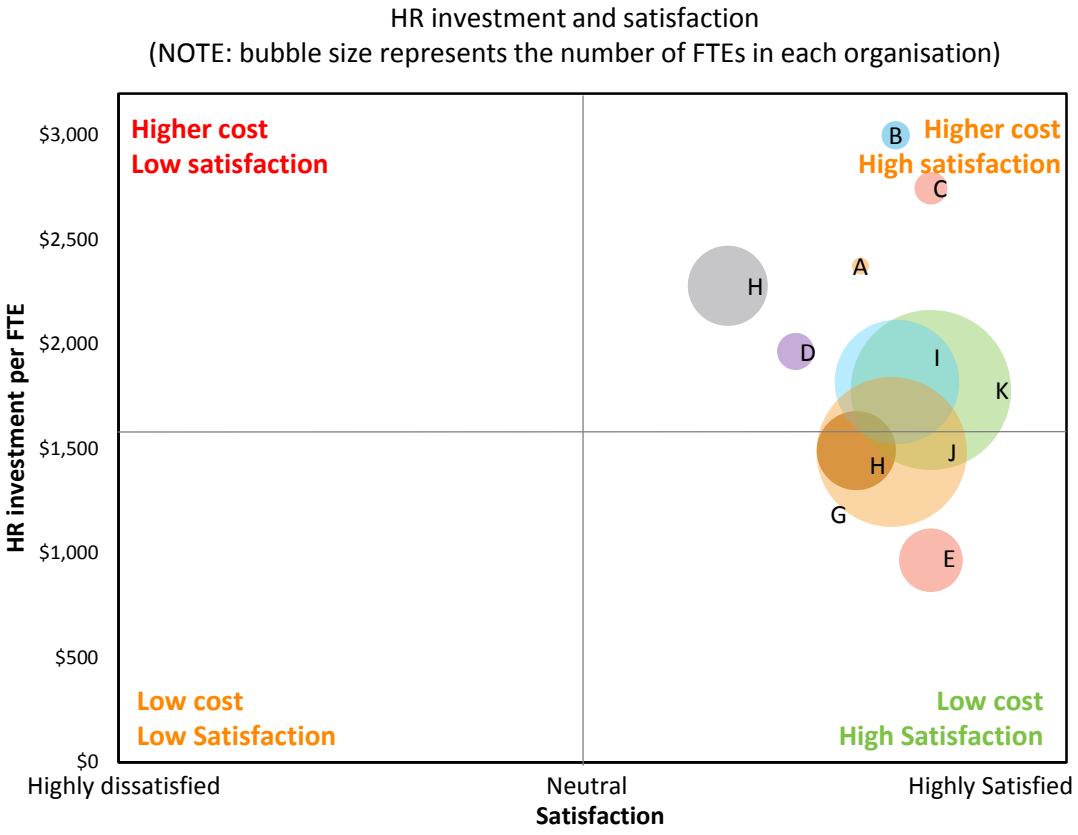


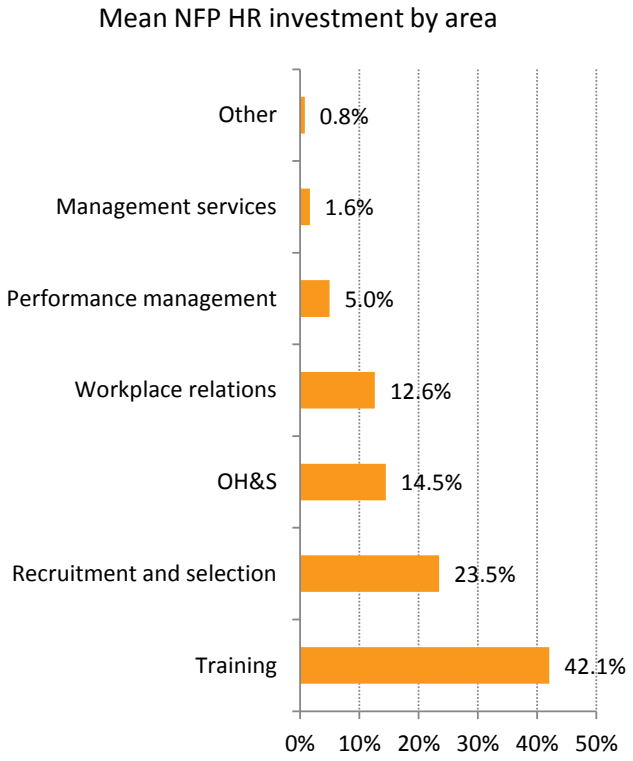
Note: Satisfaction with finance was measured amongst managers

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4a. Investment in HR services varied considerably, unlike satisfaction. HR investment is primarily directed towards training and recruitment.





4b. Analysis of the HR data showed that on average organisations…..

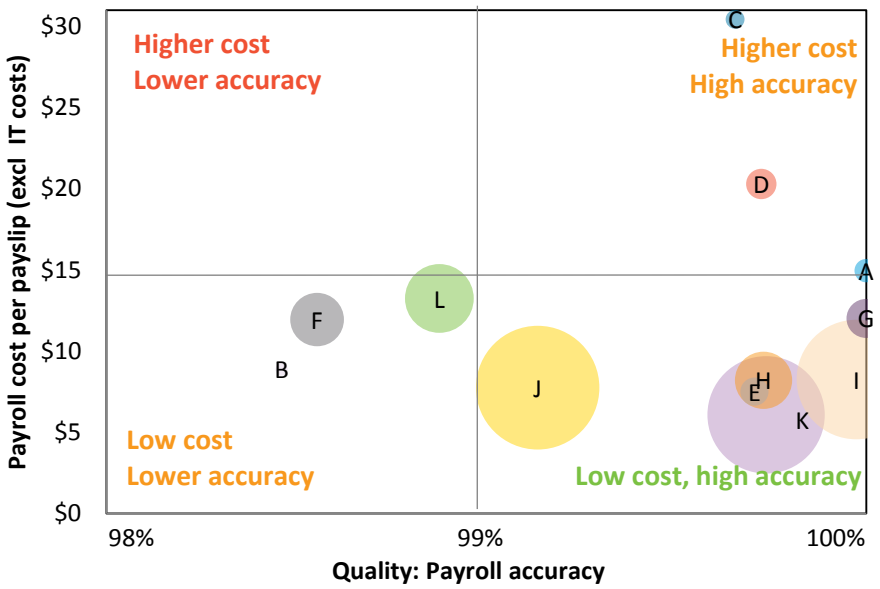
- Delivered most services in-house. The few outsourced services included: training, recruitment and external lawyers associated with workplace relations
- Had 1 HR FTE for every 80 staff (varying from 54 - 132)
- Experienced 16% turnover (varying from 9% - 25%), and organisations with high turnover often had higher training and recruitment costs
- Spent $480 on each recruitment (varying from $150 - $1,100)
- Took 6.3 weeks to fill vacant positions, and had new staff stay more than 12 months 95% of the time (although three organisations lost close to 20% of new hires within twelve months)
- Filled 84% of vacancies with external staff
- Had 38% of eligible staff complete the documented performance review process
- Provided mostly classroom based training, although some organisations reported benefits from online learning approaches.

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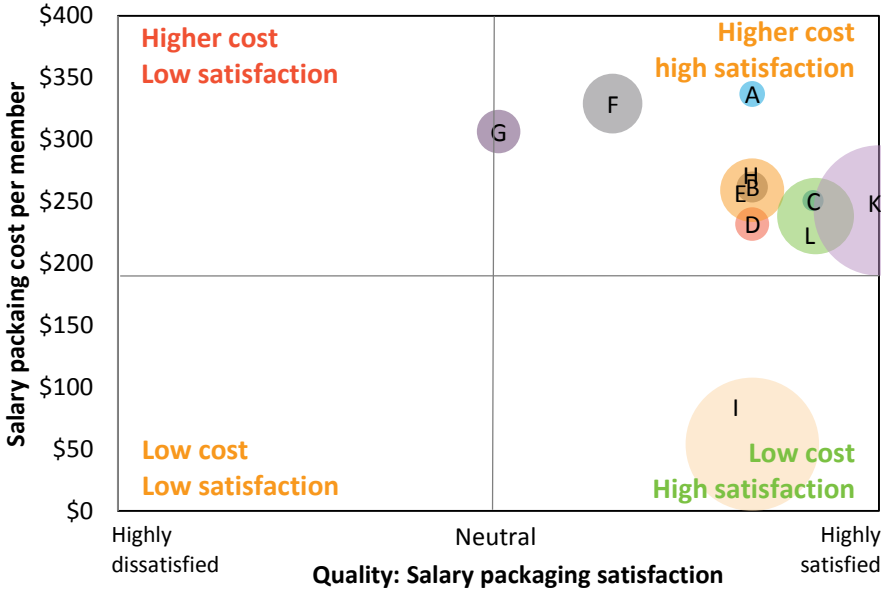
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5a. Payroll and Salary Packaging: most organisations are similar, but key differences stand-out.

Payroll cost per payslip and payroll accuracy
(NOTE: bubble size represents the number of pays per fortnight)



Salary packaging cost (per annum) and quality
(NOTE: bubble size represents the number of members)



5b. Analysis of the Payroll and Salary Packaging data showed..

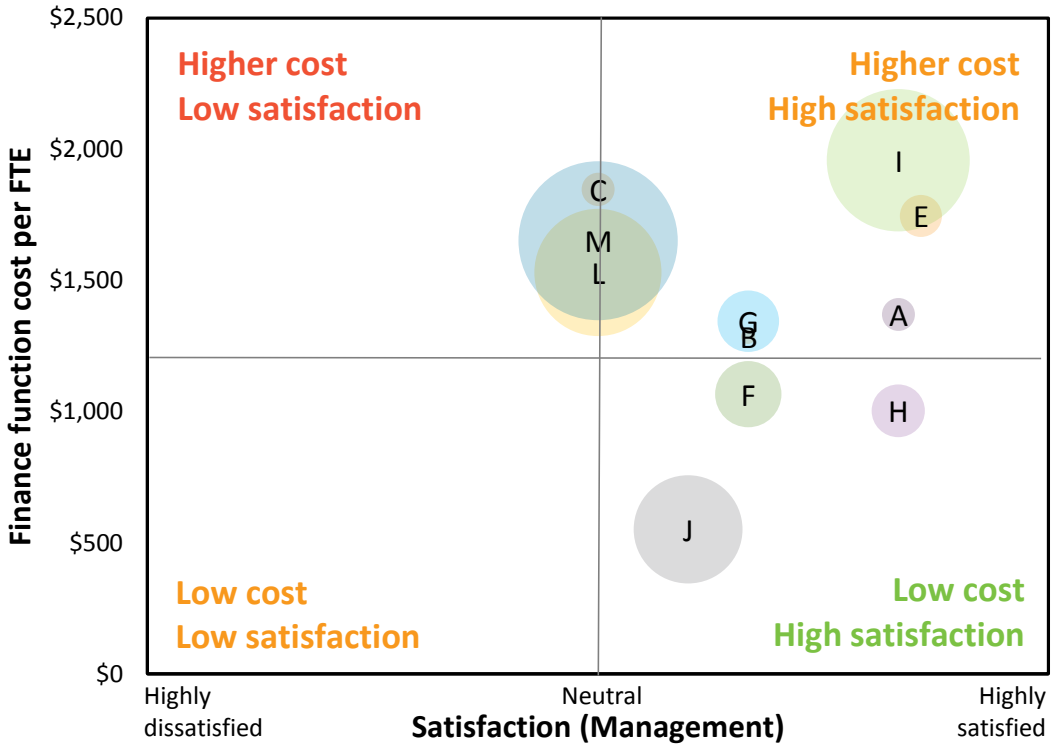
- The cost of payroll services was approximately $10.5 per payslip, and did not vary significantly across 'typical' organisations (the middle 50%) – but some organisations paid significantly more because of specific sourcing decisions
- The quality of payroll staff and the efficiency of payroll processes were identified during good practice discussions as two of the most significant factors which organisations can control to improve payroll services
- No particular payroll system always delivers low cost-per-payslip outcomes
- The factors that most appear to affect the cost of payroll services (excluding IT costs) are:
  - % of basic pays – the greater the percentage of roster or casual pays, the higher the average cost per payslip
  - The size of the organisation – economies of scale are real.
- Outsourcing salary packaging appears a sound strategy. Most organisations provide salary packaging services for around $250 per staff member per annum, and have good staff satisfaction ratings.

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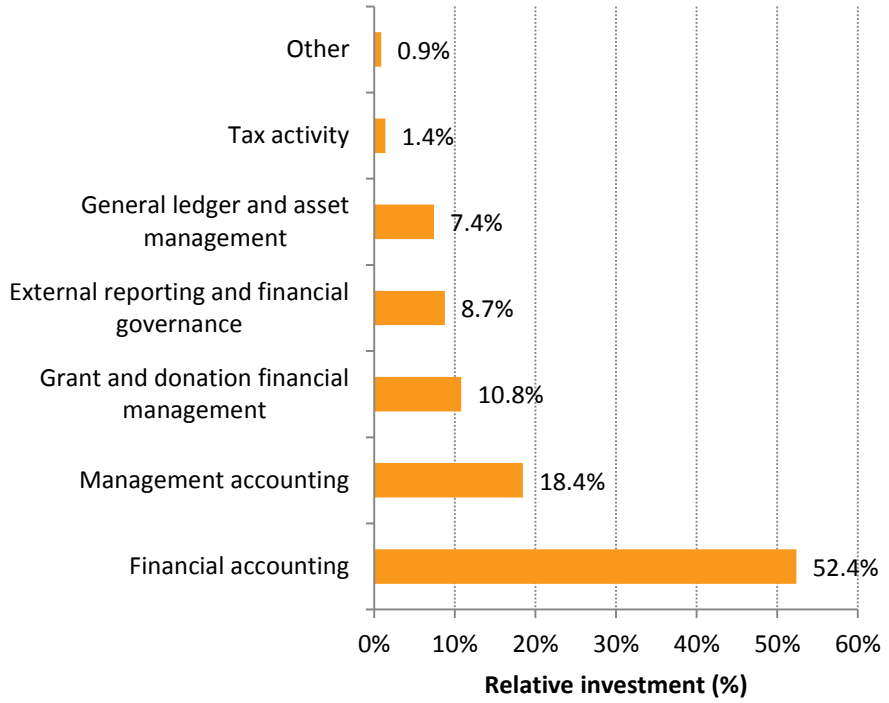
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6a. The majority of finance effort is focused on transactional financial accounting activities.

Finance function cost per FTE vs. Satisfaction with finance services (managers)
(NOTE: bubble size corresponds to organisational expenditure)



Mean NFP finance investment by service area



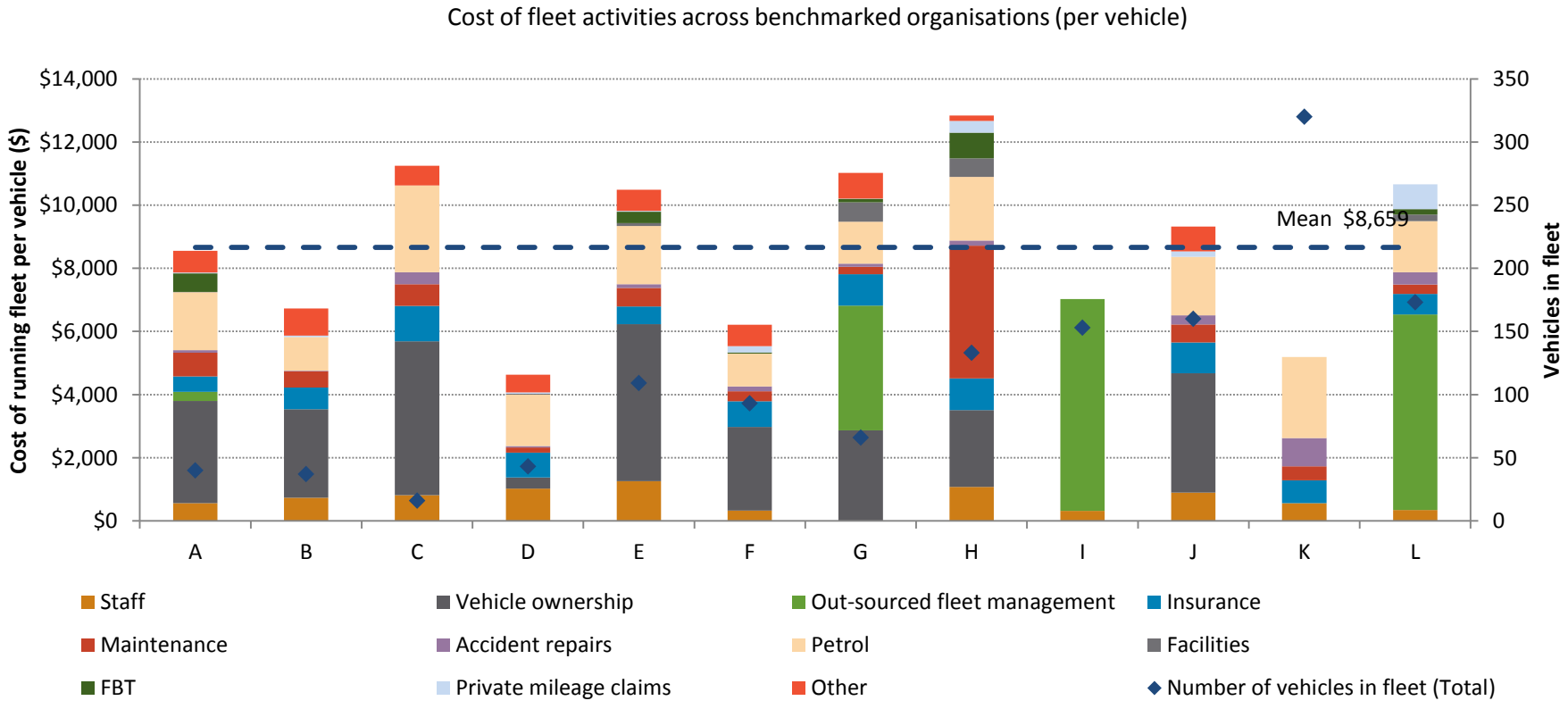
6b. Analysis of the finance data and good practice discussions identified four primary considerations.

1. **Refining the extent to which basic administrative tasks are centralised or decentralised** – Organisations varied in the extent to which they balanced the cost and quality trade-offs between centralising or decentralising basic finance activities (such as accounts payable) to program areas. These variations typically reflected the size and complexity of each organisation – with larger organisations being more likely to decentralise.
2. **Embedding a customer service ethos in the finance team** – Many organisations consider customer service skill levels only when recruiting new finance staff. Others have actively worked post recruitment to instil a customer service ethos within their finance teams. While this can take more effort, it generally results in higher levels of satisfaction from managers and staff, and can support more frequent discussions with line managers to help them understand and manage their program finances.
3. **The level of automation used in the finance function systems** – Organisations use a wide variety of finance software products, with varying levels of functionality, cost, useability and inter-operability. While it is not easy to change, picking the right finance system can significantly reduce administrative effort and improve the quality of finance services.
4. **How and when external expertise is used** – The use of external experts (particularly for investment advice) differed across organisations. One organisation appointed expert investment advisers as members of their board finance sub-committee, and this can provided significant value and minimal cost (as the advisers were happy to contribute to the organisation on a pro-bono basis). Most organisations engaged external investment advisers on a professional advisory basis.

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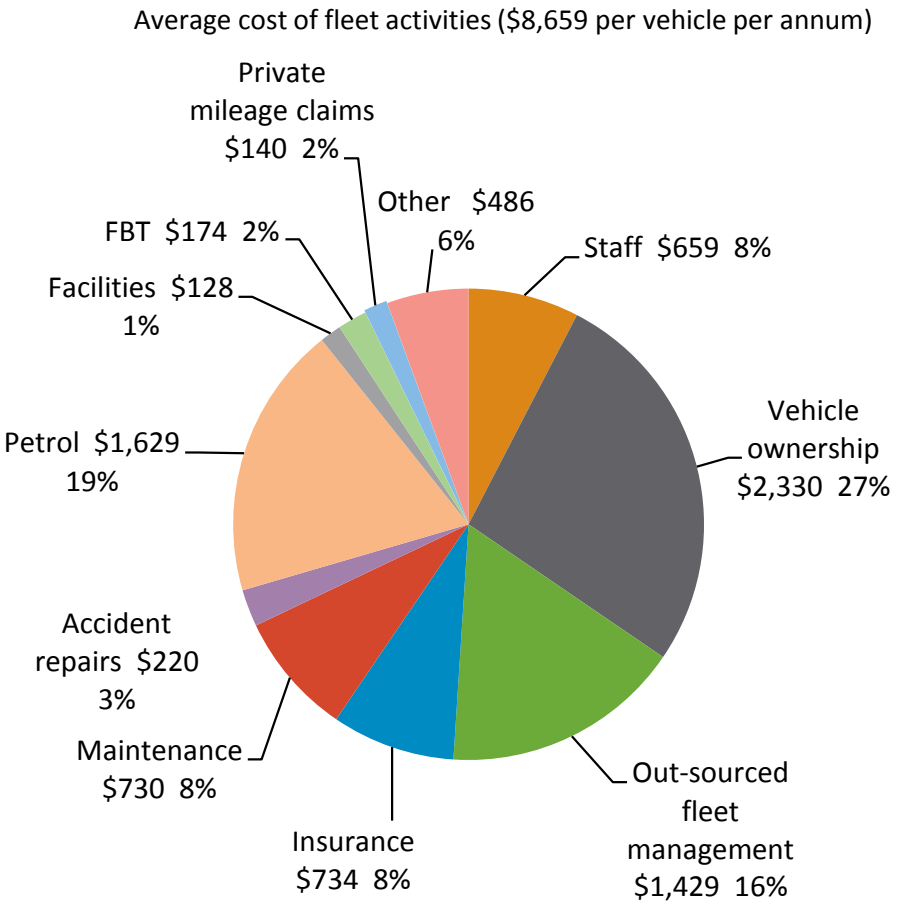
7a. Fleet costs varied from $4,628 to $12,835 per vehicle.



- **Fleet management is mostly run in-house and vehicles are generally owned**
- **The majority of vehicles are used exclusively in a vehicle pool**, although seven organisations had some vehicles used both in the vehicle pool and by specific individuals
- **Most (47%) fleet vehicles are medium-sized** –Small cars made up 35% of the fleet, with large and specialist vehicles making up the remainder
- **Insurance premiums varied significantly across organisations** – from $484 per vehicle to $1,125 per vehicle

7b. Analysis of the fleet services data showed….

- Vehicle size and average mileage per vehicle had the greatest impact on fleet cost
- Higher numbers of vehicles per FTE correlated with higher satisfaction rates. Unfortunately, increasing the number of vehicles per FTE also increases fleet cost
- Ensuring that fleets are optimised so that vehicles (of the right type) are available (at each site) when they are required and can be easily booked appears the most effective strategy to improve satisfaction

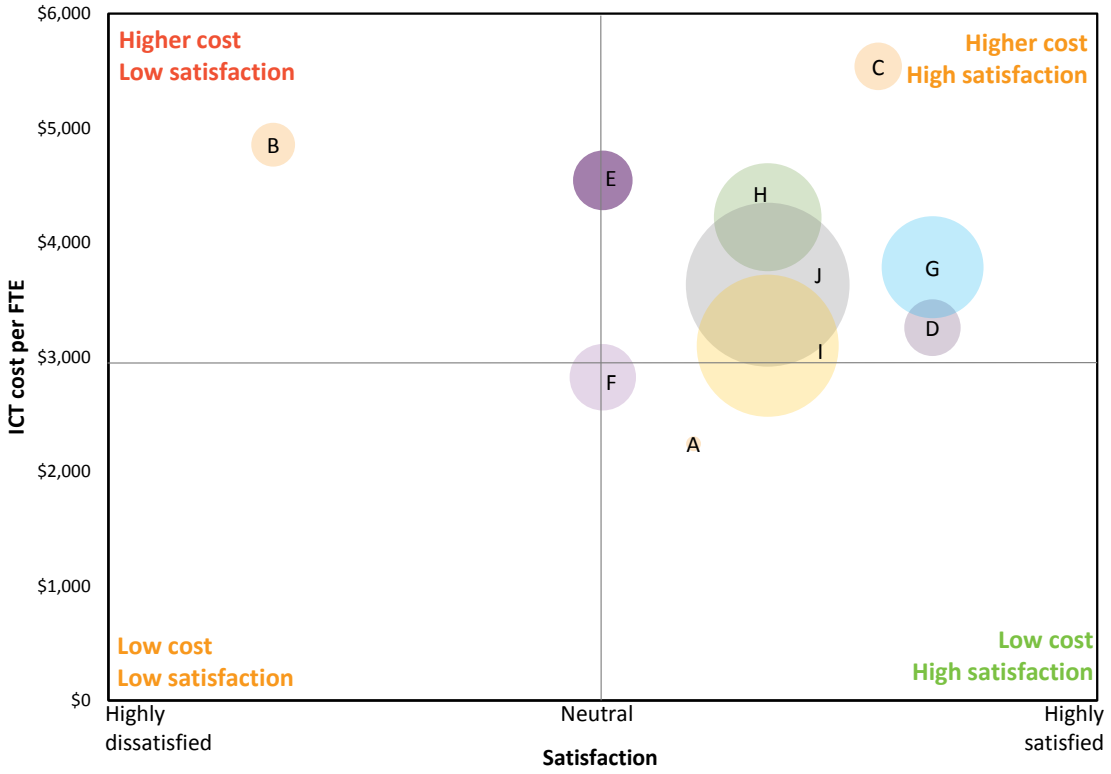


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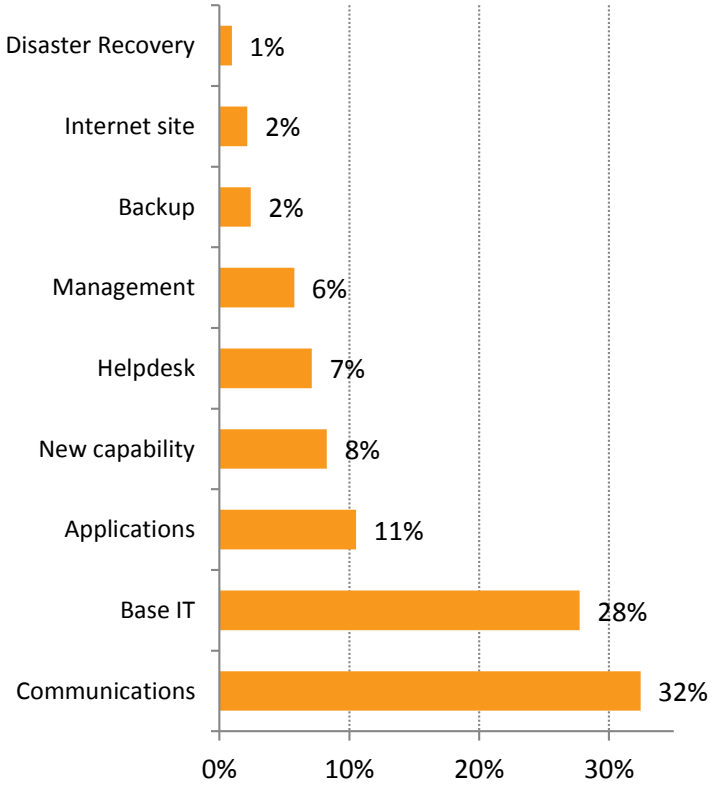
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8a. Benchmarked organisations invested an average of $3,443 per FTE in ICT and staff are slightly satisfied with ICT services.

ICT cost per FTE and staff satisfaction
(bubble size is number of personal computing devices).



Mean NFP ICT investment by service area



8b. Analysis of the ICT services data

Organisations with low-cost ICT services generally had:

- **Fewer personal computers** (desktops, laptops, tablets and thin clients) per person or per FTE – *reducing the number of devices per person is the fastest way to reduce ICT cost*
- **Low investment in disaster recovery** – *However, these organisations run the risk of business disruption should a disaster occur*
- **Larger size** – *economies of scale are real.*

Organisations with high levels of **ICT staff** satisfaction generally had:

- **Low percentage of contractors and larger sites** – which can be easier to support than lots of small sites
- **More PCs per FTE** – potentially making it easier for staff to access and get value from the technology environment (the number of PCs per person was not as important)
- **Higher investment in applications** – potentially making staff more efficient in their day-to-day activities
- **Lower investment in new ICT capabilities** – *Feedback from organisations suggests this may be because investment in new ICT capabilities often requires change, which can affect staff satisfaction. Good change management is critical..*

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9a. The burden of compliance was measured across four funding and service agreements.

Compliance activities (i.e. quality accreditation, reporting, financial audit & acquittal and developing/maintaining partnerships) were measured across four funding and service agreements:

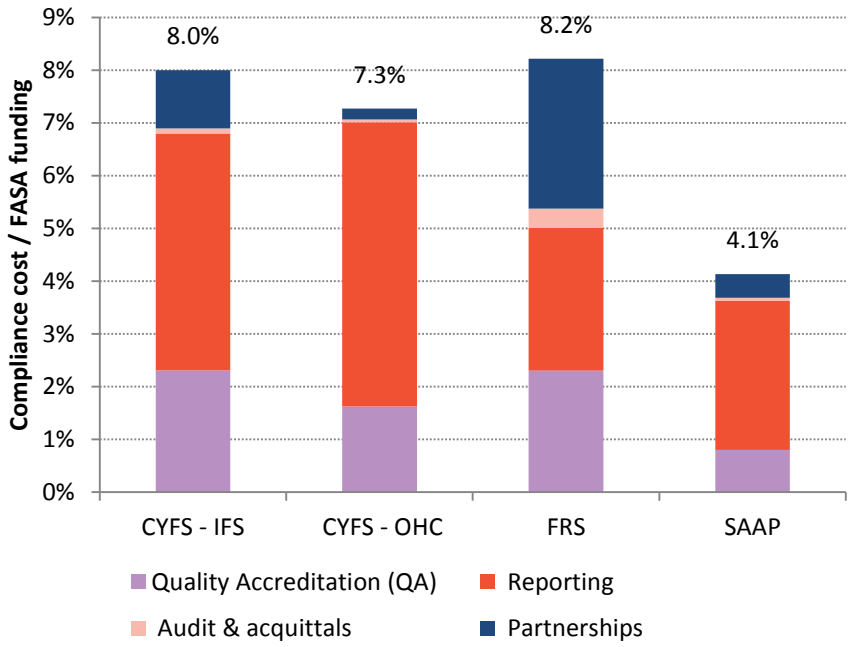
1. Children, Youth and Families – Integrated Family Services (CYF – IFS) – *DHS (Victoria)*
2. Children, Youth and Families – Out-of-Home Care (CYFS – OHC) – *DHS (Victoria)*
3. Family Relationships Services (FRS) – *FaHCSIA (Commonwealth)*
4. Supported Accommodation Assistance Package (SAAP) – *Office of Housing (Victoria).*

The project did **NOT** consider:

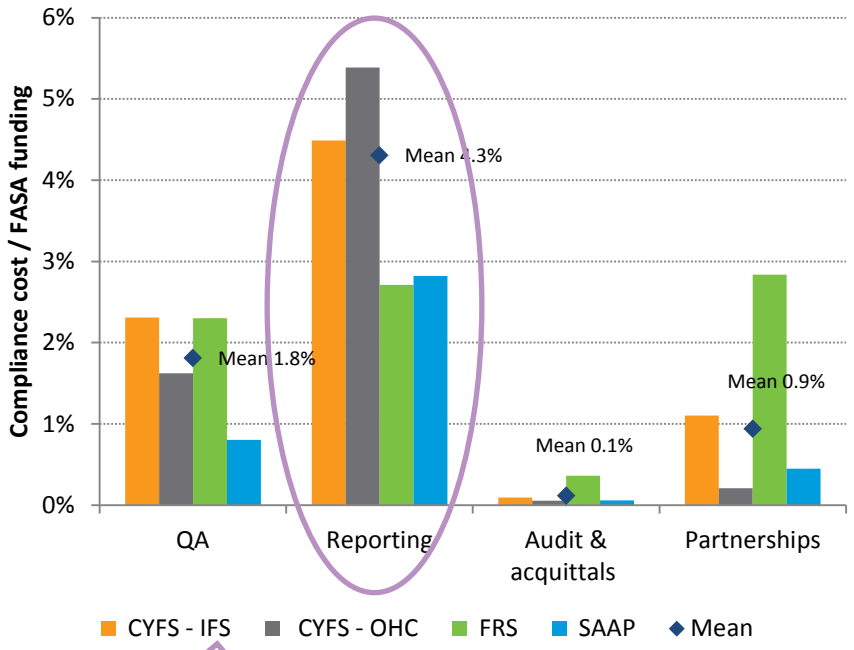
- Compliance activities required of all organisations (e.g. ASIC requirements or OH&S legislation compliance)
- The effort and cost associated with compliance activities required under other funding agreements
- The cost and effort to record information and generate reports which are required to manage and deliver appropriate services to their clients e.g. it excluded data entry into the first system (or on paper), but it did count the effort to enter data into a second or third system – which might be required to comply with funder reporting requirements)
- The effort and cost associated with developing or negotiating grant and funding proposals.

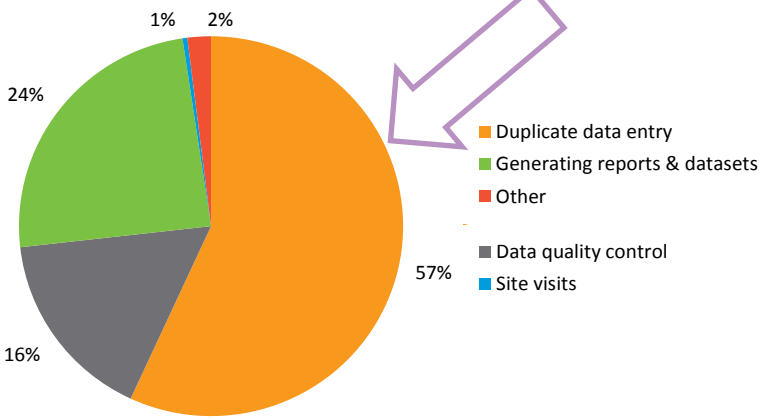
9b. The burden of compliance is significant, and sometimes not well understood by funders.

Mean relative compliance cost by FASA



Mean relative compliance cost by activity





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What value has the project generated for participants?

1. Identified potential improvement opportunities
2. Put issues to bed that have been a source of frustration
3. Provided a fact-base upon which change (or investment) can be justified
4. Allowed good-practice discussions to be fact-based and informed

Graham & others to comment.

The benchmarking activity in years 2 and 3 will show to what extent cost savings and/or quality improvements have been possible

What can you do?

- If you aren't measuring cost and quality, start to!
- Think about what is more important – service cost or service quality (for each back-of-house service)?
  *Remember - across Finance, HR, ICT, and Fleet no organisation delivered services which were **'high quality' and 'low cost'***
- Consider whether your services are efficient or whether you spend too much
- Determine whether your back-of-house services enable your staff, or whether changes are required
- Share good practice with your peers (through this network)!
- If you are interested in comparing activities (and possibly outcomes) for Integrated Family Services, please let me know (marcus.harvey@nousgroup.com.au or 03-8602-6239)

The first year's benchmarking results are available at www.nfpbenchmarking.com.au

Thank you