Working together for better office infrastructure

Third Sector Leaders
acevo

Institute of Fundraising

CFDG
PROMOTING BEST PRACTICE IN CHARITY FINANCE

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Introduction

This report describes how three membership organisations in the voluntary sector considered the options for closer joint working and shared services. The organisations were:

acevo is the professional body for the third sector's chief executives, with over 2,000 members. acevo provides support and advice to its members, offers professional development services, and provides influence and campaigning on behalf of its members. acevo's mission is to contribute to the increased effectiveness of the voluntary sector through support and development of chief executives of voluntary organisations, and through promotion of higher standards of executive leadership through mutual support, sharing of expertise, training and publications.

Charity Finance Directors' Group (CFDG) is the professional body for finance directors within the sector, and has over 1,100 members. CFDG provides assistance to charities on a range of issues, such as accounting, taxation, audit and other finance-related functions. CFDG's mission is to deliver services that are valued by members and enable those with financial responsibility in the financial sector to develop and adopt best practice.

Institute of Fundraising (IoF) is the professional membership body for UK fundraisers, working to promote the highest standards in fundraising practice and management, with over 4,100 individual members. IoF aims to develop, promote and champion excellence in fundraising, and to promote fundraising wherever possible. It seeks to achieve this by setting standards and promoting best practice in fundraising, developing and increasing the individual and organisational membership, supporting, developing and nurturing the effectiveness of all fundraisers and initiation, research, development and promotion of new fundraising products and techniques.

After some initial discussions, they decided that they needed to undertake a fuller feasibility study. They were able to obtain funding for this from the National Infrastructure Modernisation Fund as part of the Change-Up initiative for the Home Office. This allowed them to embark on a more thorough process, to get beyond the talking and to contract consultants to undertake the majority of the work. The aims of the feasibility study were to gather information on the existing infrastructure of each organisation, identify functions where there is potential for shared services, develop options for shared services, and review the feasibility of implementing the preferred options. The emphasis was on "back-office" functions rather than core services to members, and there was never any intention that this would drift into a merger of the three organisations.

The feasibility study was broken into stages:

Stage one – evaluation and assessment of existing infrastructure and systems

The consultants conducted a planning meeting with representatives from the partner organisations and undertook desktop research, reviewing documents from each organisation. Examples of the documents each organisation had to collate for this exercise were:

- Last audited accounts
- Recent management accounts and budgets
- Leases for premises
- Contracts or leases for other equipment and services such as IT maintenance
- Organisation charts
- Job descriptions for key posts in finance, HR, IT and other support functions
- Details of ICT systems operated
- Internal procedures manuals and policies e.g. staff manual, written financial procedures

Meetings were held with key staff in each organisation in order to gain a good understanding of the support systems in operation, any issues, areas for change or improvement, and opportunities for learning and sharing. This stage also involved meetings with the chief executives of each organisation and representative trustees.

The consultants produced detailed profile documents for each organisation, describing how they operated their support functions, costs and opportunities for change or improvement. These formed the basis for a discussion at a workshop held at the end of this stage to share findings with senior staff from all three organisations, and establish the main common areas and opportunities for further work. The workshop prioritised the areas for development in stage two, specifically premises, finance and ICT.

Stage two – design and development of conceptual model for integration and shared resources

From the workshop, the consultants developed a number of options for further work. These focused on premises, finance and ICT, and included some "sub-options" for two of the three organisations to work more closely together in some areas, rather than all options involving all three organisations. The consultants presented the options documents at a stage two workshop and participants agreed preferred approaches for further investigation.

Stages three – detailed design and costing of preferred model

The preferred options were developed in more detail, including identifying benefits and risk, and identifying indicative costings. The lead group discussed these draft business cases at a workshop, and identified the next steps that would be involved in implementation.

Stage four - feasibility report

The consultants wrote up the findings from all stages of the work as a feasibility report, supported by the organisational profiles, options documents, and business cases. This included an outline project and suggestions for ways in which the implementation could be taken forward.

Models for collaborative working

"Working together inevitably involves a level of outsourcing" *(Sharing without merging, 2005)*

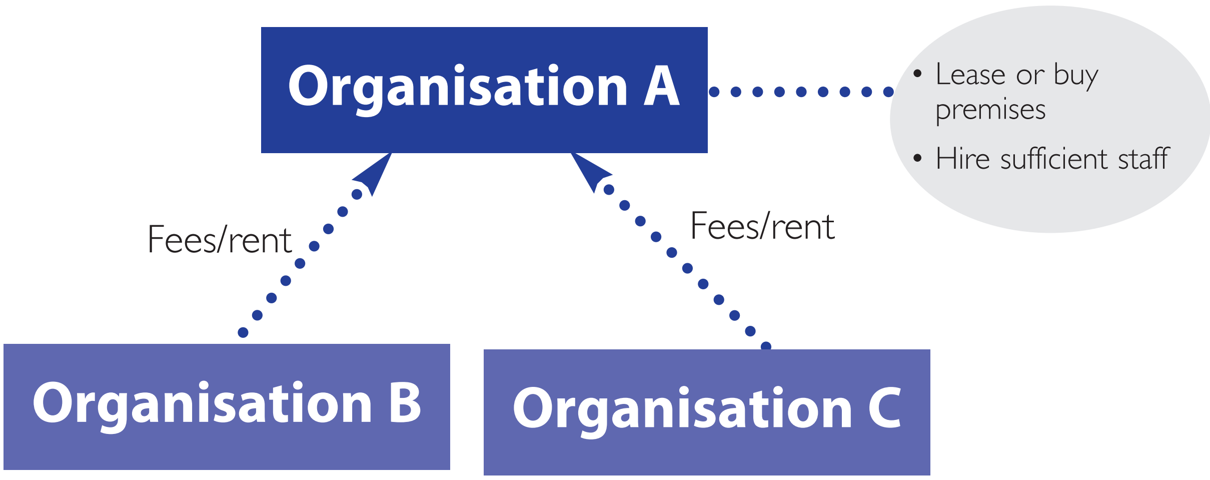
Outsourcing presents opportunities to concentrate knowledge and expertise of a particular area of work and to reduce costs. Hence it makes sense for smaller organisations to consider outsourcing, particularly for specialised areas of work. Stage one of the feasibility study had shown clearly that the areas for potential sharing were the support functions. Outsourcing in different forms might be the way forward for these services.

"We anticipated that they would be able to free up some staff from administrative duties, which would create more time for them to focus on member services. We also hoped that shared services would generate cost savings, so that we would all have greater financial resources to apply to member services." Gail Scott-Spicer, acevo.

While they did want to achieve cost savings, it quickly became apparent that this was not the main driver for them – achieving improvement in the support services was equally important, if not more important.

Lead partner

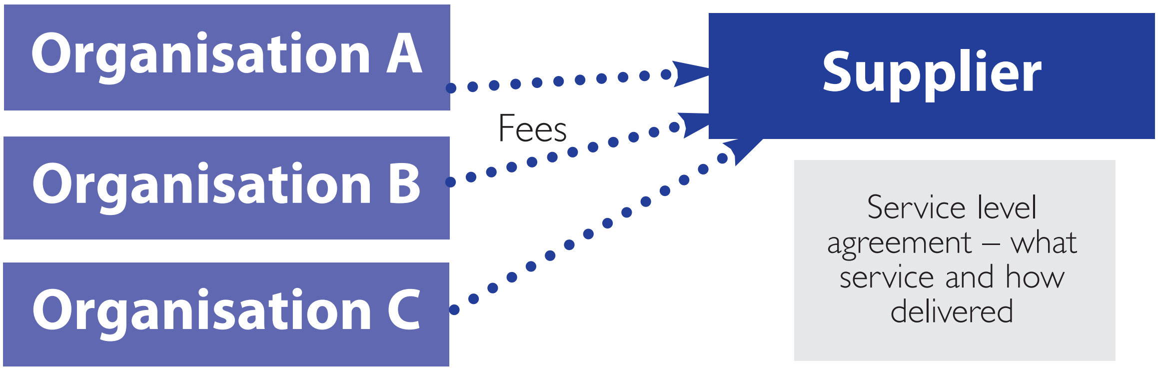
One model for collaborative working is for one organisation to provide services to the others.



Organisation A would have to employ adequate numbers of staff, and would deliver services to organisations B and C on the basis of agreed levels of service. In relation to property, this would mean organisation A taking on the head lease for a property or buying a property, and then sub-letting or letting to B and C. The advantages are strong leadership from organisation A, with faster decision-making. The disadvantages are the high risk for organisation A if the other organisations decide to move away from the arrangement, plus the risk that the service will not meet the needs of all organisations.

Joint outsourcing

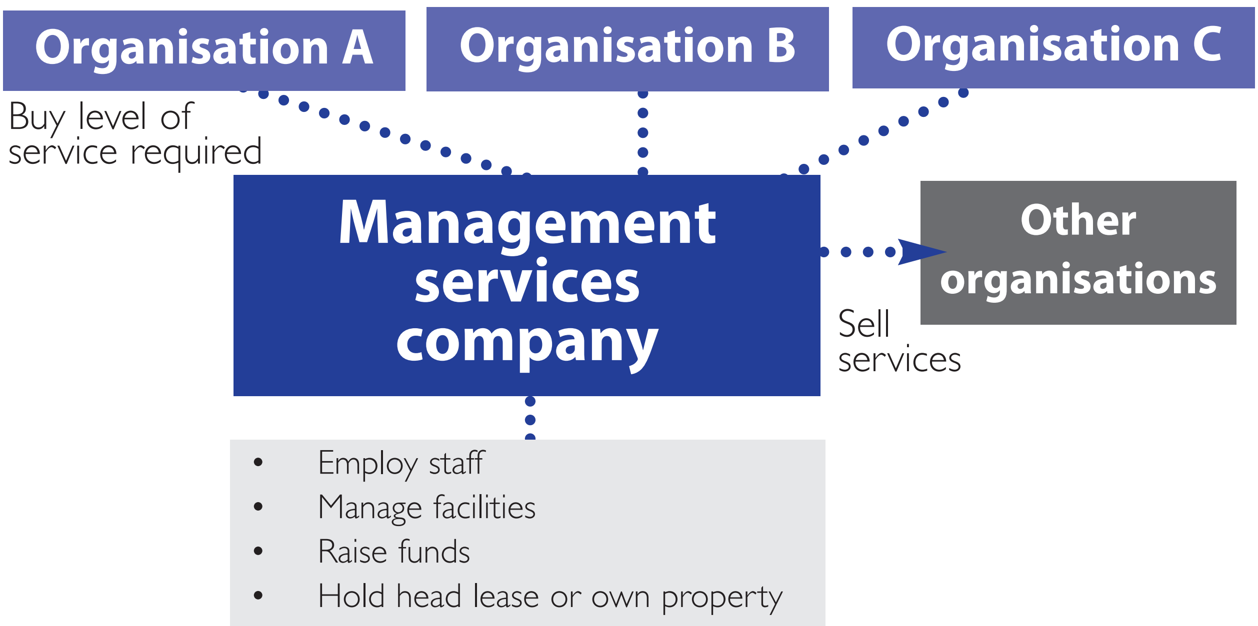
Two or more organisations join together to purchase services from a supplier, thus gaining advantages on price because they are buying a larger volume.



Each organisation can purchase the volume of service it requires. A service specification would need to be agreed for each organisation, and savings will really only be achieved if there is some standardisation of service across all organisations. It is relatively straightforward to set up for services that are easily outsourced such as payroll, cleaning, premises maintenance. It is scaleable as more organisations could join the joint outsourcing arrangement and organisations can leave without too many problems.

Service company

Two or more organisations set up a separate company to provide services to their organisations. The company is generally owned by the organisations and they nominate the members of the board. Each organisation buys the level of services it requires from the service company.



The management services company may also sell services to others, thus generating an income to reduce the overall costs to the partners.

Each of the models does require the organisations to have a clear view of the service they do require before they embark on new arrangements. This is similar to outsourcing, in that the service specification and service levels required underpin the whole arrangement. Therefore, a first step for any organisation in moving towards sharing services is to draw up a specification of the services required.

The future – working collaboratively

The process of working on the feasibility study had allowed each organisation to learn more about the other and to network informally. The bassac study *Sharing without Merging* identified informal networking as another form of collaborative working – one that is widely used in third sector organisations.

The feasibility study had identified the following areas as possible ones for closer joint working:

- Premises
- Human Resources ("HR")
- Finance
- ICT
- Events
- Membership administration
- Regional operations

From the outset, it was agreed between all three organisations that joint working would not be a precursor to merger, and that some operational activities were core to the service delivery to members. Each organisation wanted to retain their personal contact with their own members where this mattered, although all were prepared to accept that some areas of administration did not pose a threat to their relationships with members.

This helped to clarify where informal networking would be appropriate and where more structured joint working would be feasible and desirable.

Areas for informal collaboration

Regional events - there is potential for synergy over regional events and they may consider running events jointly in the future. It was agreed that regional operations were core to the membership services for each organisation, and it was also recognised that the way the regional services were currently organised differed significantly between organisations.

HR - as small organisations employing few staff, the requirement for HR within each organisation is minimal, and as such none of them identified the need for a dedicated HR function. However, there were opportunities to share information, and the potential to outsource to the same HR specialist.

Events administration - events are core services and events administration provided an opportunity for their staff to interact with members. However, it would be useful to discuss ideas and share good practice between staff teams in these areas.

Membership administration - a core function managed in-house and, as such, important to retain management of membership services and their relationship with their members. There is potential for sharing information and good practice.

There were some aspects of events and membership administration that would be considered with the other back-office functions of finance and ICT.

Areas for shared services

These came down to three main areas:

Premises

They thought that it would be beneficial for them to explore options for sharing premises. The expected benefits would be in creating an environment for shared back-office functions, facilitating opportunities for networking and sharing best practice, and developing and expanding services for members.

Finance

There are a number of similarities in the way that the three partners manage the finance function. The partners thought that it would be helpful to explore the options, for strategic as well as administrative activities. The expected benefits would be in reducing time spent on day-to-day financial accounting and data entry, developing greater support and information for budget holders, sharing best practice, and developing accounting software to support the work of the partner organisations.

ICT

None of the three organisations has a dedicated ICT function and the partners agreed that there was potential for sharing ICT support and services. The expected benefits would be in developing support for users, obtaining discounts for equipment and services, and in using software more efficiently.

Developing the business case

Any major change needs a clear business case. Establishing the business case for change will help you to:

- Describe the proposed change and the vision of the future in sufficient detail for all stakeholders to engage with the change. The objectives of the change should be clear, together with key aspects that will need to be achieved if it is to succeed.
- Set out the benefits of the new way of working. The benefits need to outweigh the costs, and need to be sufficient and tangible so that the effort of change is really worthwhile. It may also be possible to set out here how you will assess whether the benefits have been achieved when you evaluate the project later on.
- Estimate the costs of change. You will need to estimate how much the new arrangements will cost when they are up and running, so that you can compare these to the status quo. You also need to cost the process of change itself. The costs of getting to the new way of working should not be prohibitive or they will outweigh the benefits of change.
- Consider variations and options within the overall proposal. This will allow you to be flexible and adapt to circumstances as these change.
- Think about the risks involved from the beginning and set these out clearly in the business case. You should also consider how you will manage these risks to help you assess whether they are likely to be within your control, or whether there are risks you will not be able to easily manage.

Template for the business cases for shared services

- Background to the proposal – what are the key drivers for each organisation? What is the current position for each and what would they like to change?
- A description of the new way of working, in sufficient detail so that each person can see how they will fit into the picture.
- Benefits, both tangible and intangible. You may want to present some evidence for these benefits by referring to the experience of other organisations and case studies that are comparable to your situation. This section should also set out the criteria which will be used to judge whether the benefits have been achieved.
- Costs of the new way of working and comparison to the current costs, setting out clearly any assumptions made in arriving at the costs.
- One-off costs of change, including implementation help, transitional arrangements, new systems if necessary, plus exit costs from any existing arrangements. This should include the level of staff involvement required to manage the transition to the new arrangements.
- Risks to the project, both during the period of transition and once the new way of working has been implemented. A risk register specifically for the project is advisable, showing how the risks will be managed as well as identifying the risks. This can be regularly updated over the course of the project implementation.
- Exit strategy – you will need to consider whether the shared services will still work even if one partner pulls out, either before full implementation or once the shared service has been set up.

Lessons learned

In order for tangible gains to be made through shared services, you need to take a leap rather than a small step. The benefits will only outweigh the costs if you make a significant change.

Significant change takes time, and so you will need a plan that looks quite a long time into the future.

Significant change also requires a degree of commitment from all parties over a long period of time and you need to honest about this from the outset.

This will also require skilled project management, and a significant amount of time from a dedicated project manager. It is probably more effective to second someone to this position or hire someone to specifically undertake this work, rather than expecting a member of the existing staff to undertake this work in addition to the normal workload.

The three organisations in this study benefited from spending time together. This feasibility study was a catalyst for this, but they had all been keen to network more. You need to create the opportunities for this to happen and for this sort of networking to be given priority in people's diaries. Cost savings and other tangible benefits can arise from informal networking.

The three organisations in this study were fairly small in terms of their staff numbers and so did not have functions managing their HR, but managers handled these aspects as part of the general management of the organisation. You could argue that the three organisations together formed a larger entity and required more structured HR support. However, this would have increased the costs overall. Care is needed that you share costs rather than creating additional costs.

On the other hand, one of the organisations had recognised that they would need to spend more on resourcing their financial management anyway, and had been looking to increase levels of support to this area. So, a straightforward comparison to the status quo was not appropriate – there was a clear desire for improvement as well. Sharing services can also help you to improve the quality of a service, rather than simply being a cost-sharing or cost-saving exercise.

Discussions need to involve staff and trustees, and should not be restricted to the directors of the organisations. Staff who actually handle the day-to-day operations will have a much better sense of where there are improvements and gains to be made by sharing knowledge and expertise. Trustees may have concerns which need to be aired at an early stage so that they can be taken on board.

In this feasibility study, everyone came to the table with an open mind. They were prepared to change the way they did things if this helped to make their activities more effective. They had a clear sense of purpose, which was to improve services to members. They were very clear that sharing services had to deliver improvements and was not an end it itself.

As part of the flexible approach needed to make sharing services work, you have to be prepared to standardise processes. For example, it is not economic for a finance department to process purchase invoices in three different ways. On the other hand, there may be good reasons why one organisation needs particular activities undertaken in a certain way. Allowances can be made for this, but it is likely to make the whole service more expensive.

You will need to specify the service you want at an early stage of implementation. In this sense, sharing services is similar to outsourcing or contracting. You do need to be able to set out what you want, as well as how and when you want it.

Next steps

The trustees and managers of each organisation need to have enough time to absorb the feasibility study and consider how the proposed areas for shared services will affect them. Each partner needs to come into the implementation phase with a commitment to make this work. By the same token, each partner needs to be convinced that there are clear benefits for their organisation and for their members.

In order to manage the next stages, they will need:

- A clear project plan setting out the commitment required from each partner in terms of time and money over the life of the project.
- A project steering group to include representatives from each organisation. This group has to have the authority to approve actions and so may include several managers. It is, however, useful to have more junior people involved where they can contribute, but they can also be involved in the project in other ways. The steering group is responsible for guiding the project, so it:
- Approves the initial terms of reference, including the objectives of the project
- Meets at appropriate times according to the project timetable to monitor progress, in particular checking that key stages are being completed.
- The steering group will also review whether the anticipated benefits of the project are being realised, and whether new risks are emerging or existing risks are becoming more of a priority.
- A project manager who will take responsibility for ensuring that the project stays on track. This would be someone who would be working for the joint project even though they may be employed by one organisation. The project manager is responsible for drawing up project plans which describe what needs to be done, who needs to do it, the timetable, and the resources needed. The project manager will monitor the project plan and also actively work to overcome obstacles and delays that may emerge as the project progresses. The project manager will liaise regularly with project team members to ensure that they are progressing as required.
- The partners will need to consider the implications for staffing at their own organisations, and whether staff will need to be transferred if they decide to set up a management services company, for example. Changes such as this would clearly need Board approval and would have to be undertaken through the proper legal frameworks.
- The project team needs to build in exit strategies in case one of the partners needs to leave a part of all of the shared services arrangements at some point.
- Part of the preparation for sharing services will be to standardise the current operations to make any change as painless as possible. The staff teams involved in providing the services currently should meet on a regular basis over the project timetable to compare the processes in each organisation.

Service level agreements – key points to consider

- What is the service? What are the boundaries to the service? It is important to be clear on what will be done, but also what will not be done.
- Set out the scale of the service, frequency and standards to which it will be operated. It is usual to specify the performance standard so that this can be monitored. For example, you can specify that you want monthly reports within 14 days of the month end, and agree the format and content of those reports.
- How will variations to the service be agreed? For example, if you need additional work as a one-off.
- How will fees be calculated? Will there be a retainer, a level of fee based on volume of transactions, time taken to undertake the work, or a fixed amount for a period of time, such as a month or year? You will need to be clear about what is included in the basic service and what is an extra to this service.
- Who will be responsible on the provider side for the service? Who will be the responsible individual on the purchaser side?
- How will the service be monitored? It is usual to have regular meetings (say quarterly) between nominated individuals from each side.
- How will you deal with problems? Do you need to have a way of handling any difficulties in an independent and fair way?
- Will auditors need to have access to the data, personnel or systems?
- If the service involves the use of particular software, who will own the software and be responsible for ensuring that they are only using licensed copies of software?
- How will data security be managed?
- Exit strategy – how will it be managed if one organisation wants to leave the arrangement?

Resources list

Books, reports and printed guidance

CC34 - Collaborative Working and Mergers, an Introduction

Aimed at trustees and introduces the legal and regulatory aspects of collaborative working, merger and due diligence.

Available from the Charity Commission

Collaborative Working and Mergers Regulatory Study - RS4

Gives the results of a 2003 survey and explains the relevant legal and regulatory issues in depth, with illustrative case studies.

Available from the Charity Commission.

Managing Mergers: a Guide

Practical guidance for those considering merger and five full case studies, 2003

Available from acevo.

Merging Interests

By Bill Mather

Explains all stages of merging and offers advice to trustees, directors and funders. Available from The Baring Foundation.

Sharing without merging: A Review of Collaborative Working and Sharing Back Office Support in the Voluntary and Community Sector

Describes external factors driving collaborative working and some models, with a focus on managed services organisations (separate organisations providing back office services to a group of partners). 2005

Available from bassac.

Progress through Partnerships

Brief example of collaborative working - encouraged partnership between BME led organisations and their predominantly white counterparts in London's voluntary and community sector.

Available from bassac.

Making Partnerships Work

Guidance on partnership working from The Prince's Trust; the report provides definitions, models, case studies and a ten-step guide to creating an effective partnership. Available from The Prince's Trust.

Making a Difference Together - Impact Assessment

The Lloyds TSB Foundation for England and Wales' Collaborative Grant-Making Programme

An analysis of 18 partnerships supported by the programme, describing their breadth, achievements and challenges.

Available from The Lloyds TSB Foundation.

Websites

www.acevo.org.uk

www.cfdg.org.uk

www.baringfoundation.org.uk

www.bassac.org.uk

www.charitycommission.gov.uk

www.ethicalproperty.co.uk

www.institute-of-fundraising.org.uk

www.lloydstsbfoundations.org.uk

www.ncvo-vol.org.uk

www.princes-trust.org.uk