Cost control for charities: maximising the impact for target causes by making budgets go further

An m-hance whitepaper

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Introduction

Continuing economic hardship and brutal government cutbacks have seen competition for funds in the not-for-profit and charity sectors increase steadily. With disposable income under greater pressure than ever, charities are finding they must work twice as hard to maintain and grow the donations they rely on - especially when there are so many good causes vying for public support. At the same time, inflation is driving up operating costs. To ensure that every penny that comes in is used to maximum effect, organisations need to be slick and efficient in the way they procure goods and services, balance the books and generally manage their finances.

This is essential not only to ensure resources can be stretched as far as they will go, but also to keep donors satisfied. As the majority of their income comes from grants, fund-raising and public donations, not-for-profit organisations have an obligation to manage funds effectively and to report on their financial performance.

Successful management of a not-for-profit organisation requires great attention to detail, then. Careful administration of expenses, and meticulous reporting practices, are crucial for regulatory compliance and to secure future funding.

The effectiveness of new strategies and campaigns needs to be monitored closely too, so that winning formulae can be reapplied and less effective tactics phased out. Where fund-raising efforts are based on good ideas and gut-feel alone, there is a risk that resources will be expended and the amounts raised insufficient. To maximise the impact and make best use of staff and volunteers' time, charities need a way of tracking the campaigns and events that deliver the best results so that these can be analysed, replicated and improved upon.

Business technology has a critical role to play in the effective management of a charitable organisation. To function most effectively, attracting and nurturing public goodwill and driving up profits, charities need powerful business management solutions - ideally software that has been optimised to cater for the unique requirements of not-for-profit organisations. The right solutions will allow managers to identify inefficiencies, overspending, budget shortfalls and spending anomalies while capturing and summarising crucial performance data. Appropriate solutions can also help significantly in the planning, management and measurement of fund-raising campaigns.

With pertinent information and insight to hand, charities will find they are in a much stronger position to manage resources effectively, use staff and volunteers' time and skills wisely, provide vital feedback to financial supporters, and - most importantly of all - achieve more for the charity's beneficiaries.

The following white paper assesses the multiple challenges facing the not-for-profit sector in the current climate, and the specific ways that appropriate business solutions can help.

Challenges facing charities in 2013

Commentators believe the difficulties facing the voluntary sector are reaching a peak in 2013, as public spending cutbacks and reduced donations force many charities to dip into their scant reserves to keep operations going. Many have voiced fears that they may have to cut activities, jobs or even close altogether.

In January 2013 the UK's National Council for Voluntary Organisations (NCVO) reported that close to half of charities planned to reduce spending over the 12 months ahead. The findings, from NCVO's 20th quarterly Charity Forecast – to which senior charity staff from 256 NCVO member organisations contributed – indicated that many were planning a reduction in workforce and/or services.

Commenting on the findings in an article in Civil Society Governance, NCVO's CEO noted that many charities have now pared back their operations to such an extent that they have nowhere left to go without having an impact on the services they provide, especially as rising demand for charity help has coincided with a drop in income.

In May, NCVO went on to warn that public funding for charities could be £1.7 billion (12%) lower by 2017/18 than in 2010/11, based on Office for Budget Responsibility forecasts of public spending combined with NCVO UK Civil Society Almanac data on charities' income sources.

The figures make for very sombre reading. Until the public is able to give more, and as long as the number and range of worthy causes continues to grow because of a growing need for charitable help, organisations' only leverage is to be cleverer in the way they operate, and more business-minded in the way they target resources and prioritise campaigns. This is their best bet if they are to improve their viability and long-term prospects.

The British Government is well aware of the challenges facing charities, as well as the considerable value of the work they do, and is trying to do its bit to ease their plight. In February 2013 the Coalition published a new policy aiming to make it easier for the third sector, as well as small/medium enterprises more generally, to win government business – and be paid for it more swiftly. Specifically it announced the intention for 25% of central government spending to go to such organisations – and to create a situation where "small companies, charities and voluntary organisations are no longer shut out by excessive bureaucracy and poor procurement practices".

Acquiring a business mindset

If they want to be treated more as businesses however, charities need to be able to operate with an equivalent mindset.

An advice column by Grant Thornton published on The Guardian's Finance Hub in July 2012 offered seven tips to help charitable organisations succeed in the face of economic adversity. It noted that, unlike the banks, charities that fail are hardly likely to receive government bailouts, adding: "While some may be able to rely on their reserves temporarily, in the long term they will have to find new sources of income, new ways to deliver services and reduce costs – whatever it takes to balance the books."

One of the main recommendations offered in the article by Matt Dunham, an advisory partner at the firm, was that voluntary sector organisations must 'get a grip on the finances'. "Robust financial information and strong budgeting processes are key to avoiding insolvency," he urged. "Understand the cost and benefit of your services. Successful organisations have proper corporate governance in place to ensure what they do is always aimed at achieving their objectives."

Other advice included 'looking for service efficiencies': "Don't make the simple mistake of cutting services if you could instead have made them more efficient. Mergers and shared services offer major potential for efficiencies and will prove the solution for many organisations, but make sure you choose the right partners."

Expecting more from suppliers

The role of technology in automating core back-office processes, and giving charity managers the visibility they need over their performance, comes up time and again in experts' advice to the third sector. Yet the evidence suggests that many charities are still behind the curve when it comes to honing business efficiency. A marketing spokesperson from animal charity RSPCA conceded as much in a blog for Supply Management, in the context of sourcing.

The article (by Alethea Lavington, marketing category manager at the RSPCA) notes that, despite the best efforts of the Charities Sector Procurement Group in promoting the associated cost savings and efficiency gains of more strategic approaches to sourcing, charities still lag the private sector in their endeavours. In particular, many charities are struggling to shake off legacy relationships and contracts that were negotiated without putting value front of mind: "One challenge for procurement teams is their colleagues' commendable, but sometimes misplaced loyalty to existing suppliers," the blog warns. "A 'suppliers know best' culture prevails: there's too much reliance on taking a vendor's advice at face value and too little due diligence done to ensure the contract and relationship is working well for both parties."

Another reason that charities may lag behind the private sector in taking a more analytical approach to procurement is the lack of legislative and shareholder pressure, the article continues. "Charities are still very much focused on revenue and, although the attitude to return on investment is changing, we are still driven by increasing funds rather than improving savings."

This theme is picked up in a recent study by Expense Reduction Analysts (ERA), which looked at the psychology behind charities' attitudes to procurement. The extensive survey of financial directors across a wide range of organisations throughout the UK and Ireland found that staff at more than half of charities (52%) employees lacked the time, experience and energy to secure the best deals from suppliers. There was widespread agreement that this was hindering charities' effectiveness.

Good governance

Even if charities were thriving, they would still need robust financial controls. Public trust is an issue of vital importance to charities, which could not survive if people stopped supporting them – for example out of a fear that funds were not being used effectively. It is critical, then, that charities have good governance. A report sponsored by Charity Finance Group and the Small Charities Coalition (Making IT count: A report into financial management in small charities, May 2013) notes that relying too heavily on individuals greatly increases risks, including the risk of fraud and theft.

How technology can help

The right software tools can help re-focus charities' energies by providing the controls, insight and steering that are still lacking for many organisations. Solutions exist – many of them specifically packaged for third-sector requirements – which target the biggest sources of business inefficiency in charities. These enable:

- Cost control – through improved spend control and visibility of procurement
- Automation – eliminating inefficient paper-based processes in finance and processing expense claims
- More effective and informed planning, budgeting and forecasting
- Improved spend analysis and risk reduction – providing clear visibility of who is spending what and when, and the ability to spot maverick spending or wasteful use of resources
- The ability to track and control costs in more complex workplace scenarios – eg preventing expenses from escalating where more volunteers request the ability to work from home

Automation, transparency and control

If £2 is going out in costs for every £1 coming in to a charity, it's obvious that the organisation is not economically viable. Redressing the balance means bringing more in but also reducing what goes out. The first part of the equation means making sure that every new fund-raising drive is targeted and effective, economically run and profitable. The second means never spending more than is needed.

To sharpen up practices at both ends of the spectrum, charities need to keep records of everything they do, and be able to compare, analyse and deduce things from this information. The more automated and joined up the processes, the greater the transparency into performance – against targets, against previous efforts, and against best-practice benchmarks.

The more organisations can see and measure what they are doing, the better able they will be to hone and control their activities so that the results keep improving.

Controlling spending

If there is more going out than coming in, charities have a problem. Comprehensive financial management software suites can have a huge impact here by helping managers monitor expenditure against budgets, reduce rogue spending and identify opportunities to make savings. Procurement solutions, meanwhile, can help organisations maximise efficiencies in their supplier relationships and purchase habits – highlighting where all the money goes and flagging excessive spending, so that managers can determine whether purchases are justified at the current level.

At the front-end of the 'business', charities can deploy campaign management solutions to record and track the effectiveness of new fund-raising drives – and weigh up what each initiative brings in (and the ratio of sustained giving to one-off donations, for example) versus what it cost. Being able to monitor the effectiveness of campaigns relative to each other enables charities to focus their energies on doing more of the high-impact activities and less of the resource-draining work.

Intelligent procurement

Recognising the importance of internal efficiency improvements, a number of larger charities have now formalised the procurement process, making this a formal discipline. But even smaller charities can improve their processes by reviewing how they purchase goods and services and ensuring there are strong controls in place.

As long as a charity is making purchases or ordering services on an ad-hoc basis, based on habit or intuition – and using manual processes and physical paperwork – the charity's insight into spending, and any opportunities to improve efficiency, will be limited. A number of solutions exist which can help transform this situation, by encouraging even smaller charities to manage procurement activity electronically – so that transactions can be monitored and compared more readily. Once each transaction is captured in electronic form, trends can be spotted, inefficiencies identified and performance measured against targets and budgets.

Effective finance systems

A comprehensive business management solution which provides an all-in-one enterprise resource planning system is a good starting point. The advanced functionality of leading systems span all of the critical areas of business management – from financial management and accounting, business intelligence (BI) analytics/reporting, project and HR management, to purchasing, customer relationship management (CRM), e-commerce and online business services.

These systems are scalable, and can be installed out-of-the-box and/or as a cloud-based service, making it cheap and easy to set up for small or start-up organisations.

Once implemented, the software offers charities a range of competitive insights, such as:

- How to plan current and future capacity relative to projected growth
- How to retain existing customers and gain new ones by placing customers at the centre of their 'business' and;
- How to rapidly respond to new trends and opportunities, and identify shifts in purchasing patterns

The different facets of the most advanced ERP systems are fully integrated too. This helps smaller/mid-sized organisations easily access and cross-reference data, automate routine operations and administrative processes, and provide timely reports to run their operations more effectively.

In total they help to manage processes and data across four key business areas:

Financial management

- Driving productivity improvements
- Analysing expenditure against budgets
- Assigning users, projects and general ledger accounts

Grant management

- For actual-versus-budget comparisons
- Preventing overspending with automated warnings

Reporting

- Automatically summarising key data
- Streamlining ongoing expense reporting
- Reducing errors

'Encumbrance' & commitments management

- Tracking financial commitments to ensure that total actual expenditure does not exceed appropriations
- Reducing budget surprises
- Strengthening financial integrity
- Adding committed purchases to financial reports

Adding purchase management and spend analysis

Specialist add-ons to the software offer to amplify the benefits. For example, m-hance's Purchase Management system is available to manage purchase requisition, goods receipt and electronic invoice approvals. This enables any authorised users in a charity to enter and approve a requisition, register the receipt of goods and approve invoices via a browser. When the requisition is approved by all assigned approvers, the end-to-end solution automatically and instantaneously creates a PO within an organisation's finance system. Accrual journals for all unapproved invoices at the month end are created automatically, ensuring month-end accounts accurately reflect the charity's current liabilities.

Compatible eProcurement solutions, such as m-hance Marketplace, exist too, allowing comprehensive analysis of spending - for example by supplier, product/service type, purchaser or activity.

Capturing documents electronically

To maximise the impact of such solutions, charities need to ensure they are able to capture and manage documents electronically. An electronic document storage, workflow, archiving and retrieval is an essential part of any business management solution, allowing physical paperwork to be eliminated or converted to digital form so its contents can be readily accessed and analysed, and combined and compared with other data.

Reporting trends in terms users understand

Business intelligence/reporting capabilities provide the final piece of the puzzle, bringing the figures to life for different users so they can monitor performance, spot trends and identify potential problems or untapped opportunities.

An optimum solution will use graphical presentation, such as visual dashboards to highlight key findings so that they can be digested 'at a glance' - with the ability for users to drill down into further detail if they want to examine something more closely. A sea of figures can be overwhelming and distract managers from reaching the critical findings that really need addressing.

Broader benefits of automation

Once charities have automated core processes and are managing more of their data electronically, they are able to benefit from a whole host of broader benefits:

- Inputting and interpreting data takes a lot less time, freeing up valuable staff and volunteer time to devote to higher-value activities
- The opportunity to integrate with other systems - for example membership, donor management and fundraising systems, as well as HR and payroll systems - so they can seamlessly share data, and so that processes can be automated more holistically, from end to end
- Having a central source of data on beneficiaries, members, volunteers, donors and suppliers is useful in numerous ways, not least for accurate measurement, targeting and reporting
- Documents and data can now be secured and backed up more easily, so that their contents are never lost or compromised
- Accurate and reliable reporting becomes easier for all aspects of the organisation, including automated SORP (Statements of Recommended Practice)-compliant reporting, fund accounting, activity-based cost recovery and partial VAT reports
- Collaborative working is now much easier, making staff more productive - even if they aren't in the same location

A case in point: Make-A-Wish Foundation

Make-A-Wish Foundation UK, which provides 'magical' treats and experiences to children and young people battling life-threatening conditions, has transformed the efficiency and productivity of its operations by deploying an integrated, automated business management system.

It adopted a comprehensive suite of financial management, electronic procurement, HR and payroll and expenses solutions to reduce manually-intensive administration, improve management reporting, and manage its costs and income streams more effectively in support of future growth plans.

Everything from employee expenses to requisitions, purchase orders and tailored management reports is now automated, eliminating the need to store and extract data from multiple

Excel spreadsheets. Advanced reporting capabilities enable easy comparison between budgets, forecasts and actual spend, enabling Make-A-Wish to monitor its income streams more effectively.

The ability to quickly produce management reports and more easily analyse comprehensive financial information in real-time, has improved the charity's ability to make informed decisions which are essential to its ongoing success. Because the advanced reporting is also integrated with the charity's fundraising software it is able to manage its income streams more effectively and efficiently while maintaining tighter financial control.

Replacing paper-based manual processes has driven up productivity too, reducing the time it takes to process an expense claim from 45 minutes to 15 minutes, freeing up employees' time so it can be put to better use.

A case in point: The Society of Saint Vincent de Paul

The Society of Saint Vincent de Paul (SVP), one of Ireland's largest charities, which helps people living in poverty, has deployed an integrated finance and customer relationship management (CRM) system. This has improved the efficiency of its operations, reduced administration costs and helped ensure legislative compliance.

Rather than run the technology itself, SVP opted for a fully managed service including comprehensive service desk support. The chosen solution, an integrated web-based system, is a portfolio of membership, regional location, donation and client management applications, which replaced a series of standalone Access databases.

The combined solution is intuitive to use and has boosted the charity's general efficiency, greatly reducing its financial reporting cycle. Ready access to real-time data allows performance to be monitored more closely, promoting better decision-making.

The finance system is integrated fully with SVP's client case management and donor management systems. The client case management system provides a web-based portal to accurately track activities, such as the profile of the person in need, home visits performed and assistance provided. These statistics are not just beneficial to the charity but to Ireland as a nation, providing the Government with accurate details on the levels of poverty in Ireland and helping to influence future social policy.

The client case management system also automates certain processes to enable the charity to respond quicker to requests for help. Once a request is made the system sends an alert to the local conference responsible. The member is able to access the profile of the individual and see what help has been provided in the past.

The donor management system enables SVP to record details of contributions in one place. This assists the charity to see who donates, how they donate and how often. One of the most tangible benefits of this system is that, with an integrated overview of donations, SVP can automatically claim the tax relief if this has not been done already by the donor.

Postal and online credit-card contributions can be more easily managed and monitored too, enabling SVP to increase the efficiency of its fundraising operations and significantly minimise administration costs. The CRM system's built-in templates are helping the charity target its marketing campaigns more effectively to different donor types meanwhile, and make it easier to acknowledge and follow up donations.

Conclusion

Like any other kind of business, charities need to up their game if they want to be able to compete and thrive against a backdrop of continued austerity. What makes a charitable organisation successful in the early stages – personal passion and belief in the cause – isn't necessarily what will help them endure and grow in the longer term. Sounder footings combine passionate belief with dispassionate business sense – and the tools and information to direct this.

With no respite from recession on the horizon, charities need to muster all the resourcefulness they possess, and sharpen their tools. This will ensure they continue to be relevant, appealing, efficient and effective – for the beneficiaries they represent, and the backers who want to give what little they have to help them.

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m-hance implements, deploys and manages enterprise wide systems for mid-tier organisations that wish to improve operational performance. We deal with the complexities of delivery and, where appropriate, the management of your business platform. We call this Unifying Business – ensuring that the right information is harnessed from the right systems to support the right outcomes. A Microsoft Gold Partner, m-hance has, over many years, demonstrated a capability to implement solutions effectively. We can deploy on premise, through managed services or via the cloud. We have over 2,400 customers and 230 staff based in a network of regional UK offices.

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