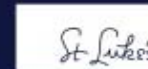




Benchmarking with Benefits

Sharing our Learnings – Driving Efficiencies

NFP Benchmarking Project – Year 3 report



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Further information

Please visit www.nfpbenchmarking.com.au for copies of previous years' reports or contact Nous Group on (03) 8602-6200 or nfpbenchmarking@nousgroup.com.au if you would like further information.

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1 Introduction

This report provides a high level overview of the results and findings from the third and final year of the NFP Benchmarking project. The NFP Benchmarking Project represents the first time in Australia that not-for-profit (NFP) sector specific benchmarks have been established to compare the cost and quality of back-of-house functions. Over the past three years, the project has analysed the relative performance of five back-of-house functions:

1. Human Resources (including training)
2. Payroll
3. Fleet
4. Finance
5. Information and Communications Technology (ICT)

The NFP Benchmarking Project chose to benchmark back-of-house functions that would have the greatest scope for improved efficiencies and quality and also be relatively easy to compare between organisations and collect high quality data.

The NFP Benchmarking Project was established in 2011 by a partnership of twelve Victorian NFP community services sector organisations with the support of three philanthropic trusts. The organisations range in size from approximately \$10 million in organisational expenditure per financial year through to around \$80 million. All of the organisations work with vulnerable and marginalised communities through family, youth, refugee and relationship services.

1.1 The project has delivered multiple benefits over the past three years.

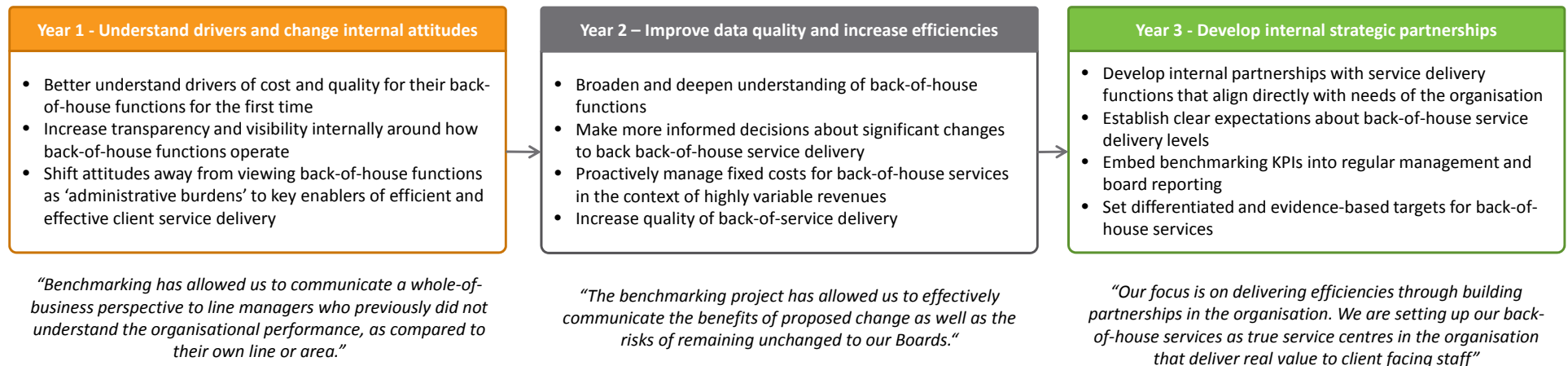
The NFP Benchmarking Project has enabled participants to better understand the drivers of cost and quality for back-of-house functions and identify and share practical strategies for NFP organisations to improve their back-of-house service delivery. These benefits have flowed directly to improved outcomes for the clients of participating organisations – as shown in Figure 1 below.

Figure 1: Benefits of the NFP Benchmarking Project



The nature of the benefits derived by organisations participating in the NFP Benchmarking Project has evolved over the past three years. This has reflected the improvements each year in the quality of the benchmarking data and an increased ability of organisations to use the data to make important business decisions – as illustrated in Figure 2 below. In the context of highly variable revenues through changed government programs and priorities all the organisations have become better able to contain the fixed cost components of their back-of-house functions by replacing redundant systems.

Figure 2: Evolution of benefits derived from NFP Benchmarking Project



Where substantial financial benefits have resulted from the NFP Benchmarking project, they have often been realised indirectly through the provision of more efficient and higher quality services to front-of-house service delivery staff – as illustrated in Figure 1 above.

The NFP Benchmarking Project has also acted as an important catalyst for much greater communication and collaboration between the participating organisations. This has resulted in the emergence of active communities of practice among functional managers and the exploration of co-operative projects (e.g. developing better IT systems, using group purchasing power etc.). As one participating organisation noted, “Benchmarking has provided a productive and safe forum to share ideas and discuss challenges with the rest of the sector. There was not the same level of coordination beforehand.”

1.2 This project has delivered lasting value to participating organisations and the sector

The NFP Benchmarking Project has highlighted to the participating organisations that:

1. **Quality back-of-house services require a dedicated level of investment.** This project has provided a robust evidence base for what constitutes a minimum level of investment in back-of-house services for the sector more broadly. Organisations participating in the project have concluded that any investment below this minimal threshold - particularly strategic investment - is unlikely to deliver the quality of services required to support high quality front-of-house service delivery and leads to a reduction in overall organisational effectiveness and efficiency.
2. **Organisations demonstrated the value of fit-for-purpose of back-of-house service delivery models.** The diversity of organisations involved in the benchmarking project illustrated that NFP organisations are able to adapt their back-of-house service delivery models to match their size and client service delivery profiles and that efficiencies are achievable across the diverse scale of participating organisations.
3. **Organisations have been able to maintain a stable and consistent level of back-of-house service delivery in a constrained funding environment to date.** The organisations participating in this project have been able to maintain efficient and high quality services in a resource constrained environment to date, that are informed by sophisticated business intelligence systems and organisational KPIs.
4. **Organisations can share and collaborate to achieve efficiencies.** This project demonstrates that NFP organisations are prepared to disclose and share lessons and best practice on detailed areas of their organisational operations with each other and with the sector more broadly.

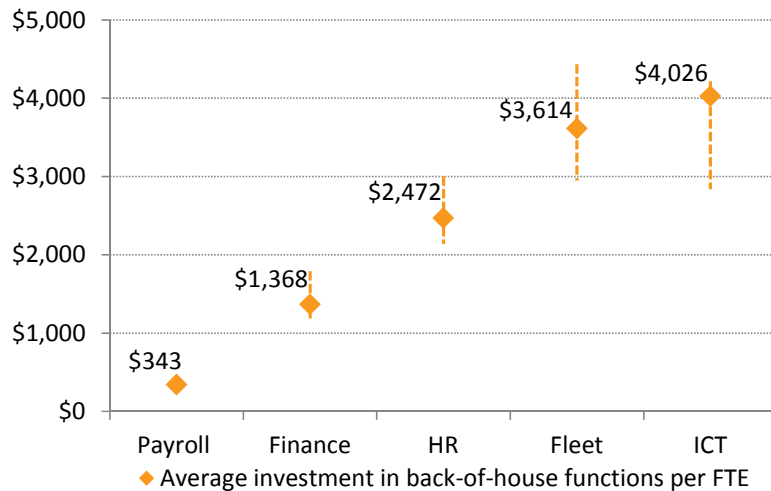
2 Total back-of-house investment

2.1 Organisations spent on average \$11,939 per FTE on benchmarked back-of-house services

In FY 2013, benchmarked organisations invested an average of \$11,939 per Full Time Equivalent (FTE) employee on the five benchmarked back-of-house functions. This equates to 10.5% of organisational expenditure on average. Overall, this is roughly comparable to the first and second year’s benchmarks for back-of-house services per FTE at \$10,178 (11.1% of organisational expenditure) and \$12,296 respectively (11.2% of organisational expenditure). These changes in back-of-house expenditure represent both purposeful investments by the benchmarked organisations and also improved data quality in the third year of this project.

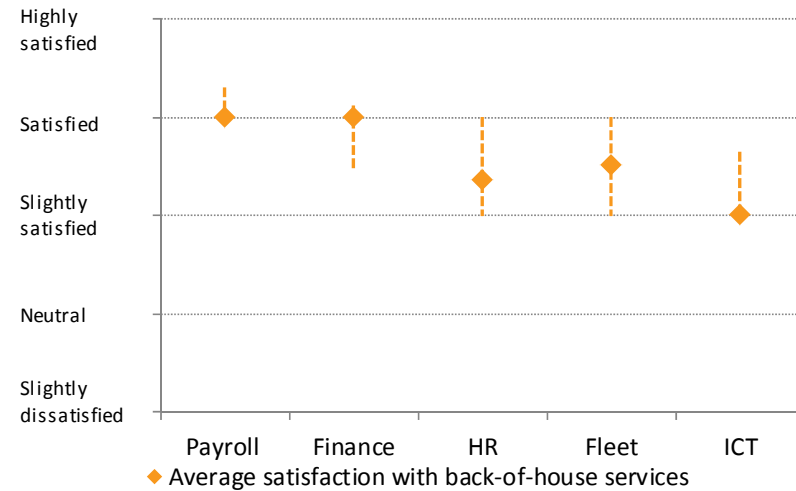
Across Finance, HR, Fleet and ICT, no organisation delivered services that were rated both ‘high satisfaction’ and ‘low cost’. While the good practice workshops identified many strategies which can help NFP organisations improve service quality and reduce service cost, organisations must also consider the role back-of-house services play within their organisation. Importantly, improvement efforts should be focused towards improving quality and reducing cost, whilst also balancing these two objectives.

Figure 3: NFP investment in back-of-house functions per FTE



Note: The dashed bar shows the spread of investment per FTE and staff/management satisfaction with back-of-house services in the middle 50% of organisations (i.e. typical organisations). Finance satisfaction was measured amongst managers.

Figure 4: Staff satisfaction with back-of-house functions



*Staff satisfaction is measured on a seven-point scale. Further information is provided in Appendix B.

3 Human Resources

3.1 Investment has increased due to purposeful investment and several organisational restructures

Many, if not all, of the NFP organisations that participated in this benchmarking study deliver challenging services to a vulnerable cohort of clients. This includes working in direct client care, shift work and supporting clients with complex and difficult life issues. Given these circumstances, Human Resources (HR) is a particularly important function. HR remains a constant point of contact throughout the entire employee lifecycle from posting job advertisements to handling workplace grievances to exit interviews as staff transition out of an organisation. In this context, on average, benchmarked organisations invested \$2,472 per FTE, with a satisfaction rating of 5.4 on a seven point scale.

Table 1: HR function summary findings

Key Performance Indicators (KPI)	1st Quartile	Median	3rd Quartile
HR cost as a percentage of organisation expenditure	1.8%	2.0%	2.3%
HR cost per FTE (excluding volunteers)	\$2,139	\$2,472	\$3,002
Total organisation FTE per HR FTE	48.6	60.55	62.13
Staff satisfaction with HR services	5.0	5.4	6.0
Percentage of staff who received some discretionary training	40%	54%	70%
Management services as a percentage of HR expenditure	4.62%	6.03%	10.72%

Table 2: Key changes in HR function practices across the life of the project

- average investment in HR per FTE increased from \$1,800 in Year 1 to \$2,472 in Year 3 (37% increase)
- overall satisfaction of staff (from 5.7 to 5.4 out of 7) and management (from 5.7 to 5.5) has declined marginally since Year 1
- overall turnover across the benchmarked organisations has decreased slightly from 17% in Year 1 to 16% in Year 3. This reduction in overall turnover is a positive result given that, on average, there was a sharp increase in new recruits leaving in the first twelve months. This increased from 5.5% to 10% in Year 3.

3.2 New services in multiple organisations increased spend on recruitment and selection in Year 3

On average, recruitment and selection makes up 24.3% of benchmarked organisations’ HR expenditure. Data indicates that organisations that have high turnover invest proportionately more on recruitment and selection (by default at the expense of other HR services such as training or performance management). While to some extent this reflects organisations with higher turnover requiring more recruitment and selection (for example, recruitment and selection spend this year was mostly driven by the rapid introduction of new services in some organisations and also the outcome of organisational restructures), it could also indicate that employees are inclined to leave an organisation when the proportional attention to non-recruitment HR services is low.

Discussions also revealed that high quality recruitment is related to having a low percentage of staff that stay less than 12 months. However, average time to fill vacant positions does not appear to have a strong correlation to retention of new staff.

Table 3: Recruitment and selection summary findings

KPI	1st Quartile	Median	3rd Quartile
Recruitment and selection as a percentage of HR expenditure	20.4%	24.3%	32.9%
Total recruitment cost per position	\$427	\$611	\$973
Average time to fill vacant position (weeks)	5.8	6.5	8.0
Turnover	13%	16%	18%
Percentage of new staff that stay less than 12 months	4.0%	10.0%	13.5%
Estimated percentage of effort undertaken by HR function staff	28%	40%	63%

Table 4: Key changes in recruitment and selection practices across the life of the project

- the average cost to recruit per position increased from \$456 in Year 1 to \$611 in Year 3
- the percentage of staff that stay less than 12 months has increased from 5.5% in Year 1 to 10% in Year 2
- one organisation has reduced advertising costs by 75% since Year 1 through transitioning from paper to online advertising with peak bodies and NFP sector specific online boards.

3.3 Performance management and training account for 42% of HR spend

Targeted efforts in performance management and training reap significant returns, including improved participation and performance, an enhanced culture and reduced turnover. In particular, two organisations invested heavily in performance management processes in Year 3. The return on their investment as measured by quality KPIs is anticipated to be delivered in the coming years. Many of the participating organisations have large casual and roster pay staff that deliver client facing services in regional and remote Victoria.

Meanwhile, many organisations sought smarter and less costly means of delivering training. Such efforts included the centralisation of training delivery and the use of self-directed online learning for non-technical learning. These two strategies alone were able to reduce costs as well as improve consistency and oversight of mandatory training for staff. Furthermore, data suggests there is a strong negative correlation between organisation size and per headcount investment in training, implying that economies of scale exist for larger organisations in the delivery of training.

Table 5: Training and performance management summary findings

KPI	1st Quartile	Median	3rd Quartile
Performance management as a percentage of HR expenditure	4.55%	5.55%	7.90%
Performance management cost per employee by percentage of eligible staff who fully completed performance review	\$162.37	\$338.55	\$573.51
Percentage of eligible staff who fully completed documented performance review process	20%	55%	83%
Training as a percentage of HR expenditure	30.0%	36.1%	47.7%
Cost of developing, conducting and purchasing training per headcount	\$303.79	\$430.57	\$538.56
Cost of managing training per headcount	\$118.38	\$179.09	\$293.37
Hours of training per headcount	9.1	14.4	21.7

Table 6: Key changes in training and performance management practices across the life of the project

- the average cost of performance management per employee increased from \$78 in Year 1 to \$147 in Year 3
- the percentage of eligible staff that fully completed the documented performance review process increased from 40% in Year 1 to 55% in Year 3
- the average cost of developing, conducting and purchasing training per headcount has reduced marginally from \$446 in Year 1 to \$431 in Year 3
- the percentage of staff that received discretionary training increased from 39% to 68%.

3.4 Proactive efforts have reduced proportionate HR spend on OH&S and workplace relations

Together Occupational Health and Safety (OH&S) and workplace relations accounted for 16.7% of total HR expenditure – a decrease from 19.3% in Year 1. The average value of WorkCover claims and WorkCover premiums varied between organisations, often due to the impacts of historical incidents and claims on these expenses. Organisations that invested a greater degree of effort in OH&S were often doing so in response to high premiums and costs of grievances and claims. The additional effort in promoting safe work practices has already seen a reduction in claims and costs for relatively minor investment.

The average cost per WorkCover claim in FY 2013 was \$5,585, which is a benchmark that has varied significantly over the benchmarking study. The variation reflects the increasingly volatile client cohort that the participating organisations are committed to provide services to. The increasingly vulnerable and marginalised client cohort has impacted on the work environment for client facing staff. For this reason, the WorkCover premium is a highly volatile metric that varies based on outlier events.

Table 7: OH&S and workplace relations summary findings

KPI	1st Quartile	Median	3rd Quartile
Cost of OH&S as a percentage of HR expenditure	4.0%	7.8%	12.8%
Number of reported OH&S incidents per FTE	1.1	4.4	5.3
Workplace relations cost as a percentage of HR expenditure	4.1%	8.9%	12.1%
Workplace relations costs as a percentage of gross payroll costs	0.14%	0.34%	0.52%
Number of industrial instruments across workforce	2	3	4

Table 8: Key changes in OH&S and workplace relations practices across the life of the project

- total OH&S costs per FTE has increased 28% from \$1,658 in Year 1 to \$2,118 in Year 3
- average cost per claim has increased from \$1,583 to \$5,585 between Year 1 and Year 3, however this result is volatile to outlier results discussed above
- the number of reported OH&S incidents per FTE has increased from 1.3 to 4.4 between Year 1 and Year 3 due to a more proactive OH&S management
- the cost of workplace relations as a percentage of gross payroll costs has relatively constant (0.35% in Year 1 and 0.34% in Year 3).

3.5 Organisations are becoming more interventionist and strategic in HR delivery

Organisations identified the following strategies to improve the quality and/or reduce the costs of HR service delivery:

Recruitment:

- *decentralise the recruitment process and reduce HR function effort* – several organisations are increasingly decentralising the recruitment process to line managers and reducing HR function effort in the process. Organisations also advocated the use of an internal register and record of applicants' (past and present) résumés and contact information, which they find reduces effort and cost when searching for applicants again in the future.

Training:

- *allow demand to drive training spend* – one organisation has introduced a needs based training framework that drives training spend. Compliance, Quality and Discretionary training costs are prioritised within this framework
- *automate non-technical training* – one organisation implemented an online induction program. Such programs are easier to implement, lead to consistent corporate knowledge and are better able to demonstrate compliance for audits.

OH&S:

- *proactively address OH&S and workplace relations* – this is especially pertinent given recent legislative and cultural changes that have resulted in greater staff awareness of WorkCover rights. Such actions included promotion of early reporting of perceived issues, creating a regular time to discuss workplace issues and analysis of lead indicators of workplace issues such as persistent lateness.

4 Payroll services

4.1 Payroll cost varies significantly across organisations, with consistently high accuracy

Payroll is a critical back-of-house function for all organisations. Paying the right amount, on time, is important to maintain staff satisfaction and productivity. For most NFPs, salary costs are a significant proportion of the budget, making payroll services more important than for organisations that have smaller payrolls.

Across benchmarked organisations, salary costs were on average 66% of total operating expenses. While it is not possible to directly control payroll size or complexity, both influence payroll cost and quality. Payroll complexity relates to the number of casual and roster pays and the number of pays across multiple awards. The quality of payroll staff and the efficiency of payroll processes (both manual and automated) were identified during discussions as two of the most significant factors which organisations can control to improve payroll services.

Table 9: Payroll and salary packaging (SP) functions summary findings

KPI	1st Quartile	Median	3rd Quartile
Payroll cost as a percentage of organisation expenditure	0.2%	0.3%	0.4%
Cost per payslip (excluding IT costs)	\$6.0	\$8.8	\$11.8
Payroll accuracy	99.5%	99.7%	99.8%
Payroll satisfaction	6.0	6.0	6.5
SP cost to the organisation per member	\$8.9	\$24.9	\$30.2
SP cost to staff per member	\$222	\$234	\$260
Staff satisfaction with salary packaging	5.4	6.0	6.0

Table 10: Key changes in payroll and salary packaging practices across the life of the project

- cost per payslip (including IT costs) have decreased from \$12.4 in Year 1 to \$9.6 in Year 3. Over the same period, IT costs have increased from \$1.3 to \$2.3 as organisations transition to greater use of electronic payroll systems
- payroll accuracy remained relatively unchanged from Year 1 to Year 3, with a Year 3 average of 99.65% (from 99.72% in Year 1)
- payroll satisfaction has maintained an average score of 6 of 7 during every year of the life of the NFP Benchmarking project.

5 Fleet services

5.1 Where appropriate, organisations have improved use and efficiency of existing fleet

Fleet services are directly linked to the scale and nature of an organisation’s services. This means that investment in fleet services fluctuates based on the changing nature of the services being delivered. For example, an organisation with many sites or home visits will require a larger and more dispersed fleet. Overall, several organisations in the benchmarking group reported in FY 2013 a surge in new services that contributed to increased costs in Year 3 of this study. The cost of delivering fleet services is not driven by scale and is impacted by contextual variables, including utilisation rates, distance travelled and demand for specialist vehicles.

Table 11: Fleet function summary findings

KPI	1st Quartile	Median	3rd Quartile
Fleet cost as a percentage of organisation expenditure	2.9%	3.4%	3.6%
Cost of running fleet per car per year (excluding private contributions)	\$8,994	\$10,526	\$11,259
Cost of running fleet per km (excluding private contributions)	\$0.48	\$0.67	\$0.79
Staff satisfaction with Fleet services	5	5.4	6
Percentage of small cars in fleet	17%	40%	58%
Percentage of medium cars in fleet	28%	46%	68%
Percentage of large cars in fleet	9%	14%	14%
Percentage of specialist cars in fleet	3%	7%	7%
Fleet age (years before vehicle turnover)	2.00	2.45	2.95

Table 12: Key changes in fleet function practices across the life of the project

- the average cost of running fleet per vehicle has increased from \$8,695 to \$10,156 from Year 1 to Year 3. Over the same period, the average cost of running fleet per kilometre increased from \$0.48 to \$1
- number of vehicles per FTE has not remained fairly constant. In Year 1, it was 0.36 and in Year 3, it was 0.37
- two organisations have actively downsized their vehicles from medium to small as a result of the benchmarking data. Several large organisations indicated they had already made this transition to smaller cars prior to the benchmarking project
- one organisation has partially transitioned to hybrid cars and expect to reap significant returns on investment over the long term.

5.2 There have been marked efforts to improve the purchase and management of fleet vehicles

Organisations identified the following strategies to improve the purchase and management of fleet vehicles.

Fleet purchases, leases and disposals

- *carefully consider the lifestyle costs in negotiating purchase of fleet.* Select vehicle makes and models based on lifecycle costs (maintenance and insurance) not just on the purchase price and where possible, negotiate bulk vehicle purchases/leases directly with manufacturers. *Rationalising the number of makes and models simplifies maintenance*
- *clearly define and seek alternative channels of retiring fleet vehicles* – organisations should turnover vehicles on an age and mileage basis. Also, one organisation found auction houses to be more convenient and better value than selling a retired vehicle independently
- *use car sharing services* – such services has been found to significantly reduce distance travelled. It is expected that as car sharing services increase geographic coverage, there will be greater opportunities for benchmarked organisations to reduce overall fleet costs
- *reduce size of cars in fleet* – multiple organisations increased capital investment in small, medium and hybrid vehicles that improved overall fuel efficiency. This has been a smooth transition where the reasons for the change have been well communicated to staff.

Fleet management

- *monitor vehicle utilisation (not just vehicle bookings) to closely identify potential to reduce fleet size (and thus, cost)* – multiple organisations transitioned to online booking systems and implemented changes to more accurately collect and record fleet data and in the long term, improve utilisation.
- *Proactively address vehicle accidents and clearly define liability.* One organisation has found publishing vehicle accident statistics has increased awareness and accountability and reduced overall accidents. Furthermore, assigning employee liability for car accidents on a sliding scale based on accident history is also being considered by one organisation.

6 Finance services

6.1 Increased automation has reduced overall finance function costs

The finance function is fundamental to the day-to-day operations of all organisations. Developing appropriate budgets, processing accounts and managing organisation’s financial resources needs to be done efficiently and effectively. Notably, this study found that there is no evidence of economies of scale in the delivery of financial services. However, the costs of compliance and quality assurance appeared to increase the costs of delivering financial services for larger organisations.

Discussions suggests the key variables that impact on the cost of finance services are: the level of centralisation or decentralisation of finance administration (particularly accounts payable and receivable), a customer service ethos in the finance team and the level of automation in finance function systems. Several organisations have actively invested in new finance systems to streamline the budget and reporting processes. This investment is designed to make business intelligence more accessible for prompt decision making and has enabled the delivery of more accurate and consistent reporting to Boards and management.

Table 13: Finance function summary findings

KPI	1st Quartile	Median	3rd Quartile
Finance cost as a percentage of organisation expenditure	1.2%	1.3%	1.4%
Finance function FTE per total organisation FTE	1.5%	1.6%	2.3%
Board and Management satisfaction with Finance services	5.3	6	6.4
Cost of investment management per funds under management	0.39%	0.51%	0.55%
Total capital spend as a percentage of total revenue	1.64%	2.30%	6.13%
Tax activities cost as a percentage of finance expenditure	0.007%	0.013%	0.020%

Table 14: Key finance function changes across the life of the project

- finance function costs decreased across the life of the project from \$1,590 per FTE in Year 1 to \$1,368 per FTE in Year 3
- total capital expenditure as a proportion of total operating expense decreased from 3.31% in Year 1 to 2.51% in Year 3. The benchmarked organisations attributed this to changing year-on-year investment needs during good practice discussions
- average management satisfaction with financial services increased from 5 out of 7 in Year 1 up to 6 in both Year 2 and Year 3.

6.2 Several organisations increased management accounting efforts in Year 3

On average, budget preparation consumes 8.27% of finance function resources (largely unchanged from 8.4% in Year 1 and 8.25% in Year 2) and report production is 7.05% of finance resources (up from 6.43% in Year 2 and 4.7% in Year 1). Report production was an area of particular focus for several organisations and this may account for the marginal increase in effort across the benchmarked organisations. This has been the result of improved business partnerships. There does not appear to be a relationship between the relative investment in report production and the volume and size of the reports, or the number of people that receive them.

Table 15: Management accounting summary findings

KPI	1 st Quartile	Median	3 rd Quartile
Cost of budget preparation as a percentage of finance expenditure	5.12%	8.27%	11.70%
Cost of report production as a percentage of finance expenditure	6.46%	7.05%	10.92%
Satisfaction of management and board with reports	6	6	6
Number of business days reports are available after the end of the month	9	10	13
Number of different financial management reports	6	22	54

Table 16: Key changes in management accounting practices across the life of the project

- on average cost of budget preparation as a percentage of total finance costs has increased from 7.59% in Year 1 to 8.27% in Year 3.
- the effort dedicated to report production increased from 4.7% of finance expenditure in Year 1 to 6.4% in Year 2 to 7.0% in Year 3, which reflects the increased focus on business intelligence and providing quality financial reports to management and Boards.

6.3 Financial accounting and general ledger and asset financial management costs have not changed

On average, organisations spend 55.3% of its Year 3 finance costs on financial accounting and general ledger and asset financial management (from 60% in Year 1). Financial accounting is affected by the volume and complexity of accounts payable and accounts receivable. This is influenced by the unique characteristics and requirements of the services that organisations deliver. Fixed asset activities take up only a small percentage (2.7%) of finance function resources. However, analysis shows that this effort does not relate directly to the type of fixed assets of an organisation.

Table 17: Financial accounting and general ledger and asset financial management summary findings

KPI	1 st Quartile	Median	3 rd Quartile
Cost of financial accounting as a percentage of total finance expenditure	43%	46.8%	54%
Cost of AP per number of AP payments	\$7.20	\$8.71	\$12.72
Cost of non-AP per number of non-AP payments	\$5.18	\$7.68	\$12.10
Cost of general ledger and asset financial management as % of total finance expenditure	6%	8.5%	11%
Cost of fixed assets activities as a percentage of total finance cost	1.4%	2.7%	3.3%
Cost of general ledger activities a percentage of total finance cost	3.54%	5.87%	7.97%
Percentage of assets which are actively monitored and tracked	96.5%	99.5%	100%

Table 18: Key changes in financial accounting and general ledger and asset financial management practices across the life of the project

- the financial accounting cost KPIs remain relatively unchanged across the 3 years
- In Year 2 one organisation reduced financial accounting costs as a proportion of organisational expenditure by 65% through centralising the invoicing process, this reduced from 2.68% of organisational expenditure dedicated to financial accounting in Year 1 to 0.90% in Year 3
- one organisation has reduced petty cash and credit card reconciliation costs through the use of single use cash cards. These are up to a value of \$1,000 and allow the organisation to track minor purchases with relative ease
- value of asset write-offs has increased from \$26,000 to \$147,000 between Year 1 and Year 3
- cost of fixed asset and general ledger activities has increased from 6.77% in Year 1 to 8.58% in Year 3.

6.4 Several organisations faced increased compliance requirements

On average, grants and donation management, external reporting and financial governance account for 15% of finance expenditure in Year 3 of the NFP Benchmarking Project.

Organisations indicated that the cost of grants management was predominately determined by the type of grant. For example, some federal government grants have a higher burden than many Victorian government grants. This suggests that there are not any economies of scale in managing grants, with higher value grants often requiring a greater volume of grants management effort.

Table 19: Grants and donation management and external reporting and financial governance summary findings

KPI	1 st Quartile	Median	3 rd Quartile
Cost of grants and donation management as a percentage of total finance expenditure	6%	7.9%	12%
Cost of donation management as a percentage of total donor income	0.69%	1.42%	2.08%
Cost of grants management as a percentage of total value of grants received	0.06%	0.09%	0.13%
Cost of external reporting and financial governance as % of total finance expenditure	7%	7.1%	9%
Cost per acquittal	\$447	\$714	\$1,267
Cost of report production per total finance costs	1.28%	2.76%	5.04%
Total number of audits	3	5	6

Table 20: Key changes in grants and donation management and external reporting and financial governance practices across the life of the project

- cost of grants management as a percentage of total value of grants received has remained relatively constant from 0.10% in Year 1 to .09% in Year 3
- cost per acquittal has increased from \$408 to \$714 in Year 1 and Year 3 respectively
- between Year 1 and Year 3, average time to produce monthly reports has remained the same (10 days) and increased marginally for production of annual reports (53 to 58 days)
- the average number of donors decreased over the life of the NFP Benchmarking project: from 1,708 in Year 1 to 920 in Year 3, however the average size of donations increased from \$399 in Year 1 to \$779 in Year 3.

7 ICT services

7.1 Costs varied across organisations as some completed, and others commenced upgrades

The primary reason for back-of-house functions is to enable staff to deliver efficient, effective client services. High quality information and communications technology (ICT) provides staff with valuable client information when they need it, can support service planning and improve efficiency. Low quality ICT support leaves staff without the information they require, reduces efficiency and limits organisational effectiveness because staff do not have the information required to proactively manage the organisation or service delivery.

This benchmarking study has found that organisations in the NFP sector are at varying stages in their ICT investment strategies. Some of the larger organisations have established systems and practices that require only marginal annual investment to maintain currency. Alternately, other organisations are at the early stages of ICT investment and this is placing substantial pressure on costs per FTE.

Table 21: ICT function summary findings

KPI	1 st Quartile	Median	3 rd Quartile
ICT cost as a percentage of organisation expenditure	2.7%	3.0%	4.1%
ICT investment per FTE (including volunteers)	\$2,839	\$4,026	\$4,217
Satisfaction with ICT services	5.0	5.0	5.7
FTE per PC (excluding smartphone)	1.33	1.51	1.67
Management cost as a percentage of ICT expenditure	4%	6%	7%

Table 22: Key changes in ICT function practices across the life of the project

- average ICT investment increased across all of the overall cost KPIs: per FTE and per FTE including volunteers
- satisfaction with ICT services remained unchanged at a rating of 5 out of 7
- the benchmarked organisations are in varying stages of their ICT investment strategies. Key changes during the Year 3 period include: two organisations invested in video conferencing software while another began the first year of a three year project to refresh ICT.

7.2 Many organisations finished ‘refreshes’ of base ICT, new capability and applications in Year 3

Base IT, new capability and applications accounted for 33% of total ICT expenditure in Year 3 (from 44% in Year 1). These areas generally incur significant development, but relatively low maintenance costs. A number of organisations undertook their refreshes in Year 1 or 2 and average proportion of total spend on these areas decreased slightly in Year 3 as they sought to embed these new technologies into business as usual.

Moreover on average in Year 3, 4% of personal computing devices (PCs) were tablets (from 1% in 2011). Tablets can reduce organisational expense and are especially convenient for mobile or remote staff. However, natural outcomes of greater tablet use include the need to develop suitable applications and movement towards cloud based technology. Although the easiest way to reduce cost is not to invest in such areas, they do however significantly enable greater staff efficiency and effectiveness and provide organisations with a competitive advantage.

Table 23: Base ICT, new ICT capability and applications summary findings

KPI	1 st Quartile				Median				3 rd Quartile			
Base ICT cost as a percentage ICT of organisation expenditure	18%				23%				28%			
Number of PCs by type: Desktop, Laptop, Tablet, Thin Client (mean)	D 166	L 53	T 10	TC 25	D 200	L 64	T 10	TC 130	D 420	L 111	T 43	TC 154
New ICT capability cost as a percentage ICT of organisation expenditure	3%				7%				13%			
Investment per every one thousand dollars organisation expenditure	\$0.83				\$1.86				\$6.48			
Application services cost as a percentage ICT of organisation expenditure	8%				13%				21%			
Total application costs per FTE	\$285.8				\$410.3				\$905.0			

Table 24: Key changes in base ICT, new ICT capability and applications practices across the life of the project

- PC usage shifted between Year 1 and Year 3, Desktop usage decreased (from 78% to 64%), tablet use increased (from 1% to 4% and thin client use increased by more than half (13% to 21%))
- the total base IT cost per PC decreased significantly from \$645 in Year 1 to \$523 in Year 3
- user satisfaction with the base IT environment remained unchanged at 5 on a 7 point scale
- on average, investment in applications per FTE stayed constant changing only \$1 between Year 1 and Year 3 (from \$409 to \$410)
- the average number of applications supported by IT increased from 12 in Year 1 to 17.5 in Year 3.

7.3 Communications, helpdesk and websites costs have remained consistent

Combined communications, helpdesk and public internet sites represent 43% of total ICT expenditure in Year 3 (from 40% in Year 1). These areas represent the primary means of internal and external communication for organisations and generally incur higher maintenance costs than Base IT, new ICT capability and application services. Benchmarking analysis suggests that the size, geographical dispersion and nature of service of an organisation are the most influential factors in determining the cost and quality of these services.

Table 25: Communications, helpdesk and internet summary findings

KPI	1 st Quartile	Median	3 rd Quartile
Communications cost as a percentage ICT of organisation expenditure	32%	35%	44%
Phones per FTE	1.09	1.31	1.52
Mobiles per FTE	0.69	0.91	1.07
Helpdesk cost as a percentage ICT of organisation expenditure	6%	8%	11%
Cost per helpdesk contact	\$15.2	\$28.6	\$34.0
Average helpdesk resolution time (business days)	0.71	1.32	1.88
Satisfaction with helpdesk	5.00	5.88	6.05
Internet site cost as a percentage organisation expenditure	1%	2%	4%
Total cost of public internet website	\$11,000	\$33,700	\$66,700

Table 26: Key changes in base ICT, new ICT capability and applications practices across the life of the project

- on average helpdesk cost per FTE increased from \$253 in Year 1 to \$321 in Year 3. The average cost per contact increased from \$25 to \$28 in Year 3
- satisfaction with helpdesk services increased from 5.25 out of 7 in Year 1 to 5.88 in Year 3
- average resolution time increased from 0.93 to 1.3 business days from Year 1 to Year 3
- telephone costs that increased marginally from \$642 per FTE in Year 1 to \$656 in Year 3
- mobile costs increased 30% from \$237 per FTE in Year 1 to \$309 in Year 3
- WAN costs that increased from \$417 per FTE in Year 1 to \$452 in Year 3.

7.4 Organisations are considering the appropriate mix of emerging and established technologies

Organisations identified the following strategies to improve the quality and/or reduce the costs of ICT.

ICT management

- *openly communicate with business lines* – organisations recognised the importance of working closely with business areas to provide consistent and optimal ICT services and minimising the risk of ‘rogue’ ICT services that misalign with the organisation’s ICT strategies, guidelines and policies.

Communications

- *video conferencing has large potential to drive cost savings and efficiencies* – multiple organisations invested in video conferencing software in Year 3. They have found it reduced time and spend on travel to meetings for both internal and external meetings.

Base ICT

- *consider a ‘bring your own device’ policy* – this allows greater convenience for staff and reduced organisational expense. This should employ a risk mitigation strategy similar to the use of personal mobiles in which the organisation would retain the right to delete the device’s contents. This policy would likely be best managed with a cloud
- *evaluate the needs of a staff member before assigning a device* - thin clients and tablets were found to be great for satellite sites, particularly ones which were hard to visit as they reduced support effort. Another organisation plans to use tablets to improve front-of-house service delivery, especially in rural areas. This includes linking their fleet booking system and client forms to tablets
- *One organisation suggested the viability of a combined cloud for the Not-for-Profit sector to achieve modest economies of scale.*

8 Next steps

The organisations that have participated in the three year NFP Benchmarking Project have agreed to continue their investment in benchmarking their back-of-house functions for the following reasons:

- **Maintain the currency of existing data** - The ongoing benefit of benchmarking is derived from transparency and accuracy of data related to the management of back-of-house services. Continuing the benchmarking – albeit with a reduced scope¹ - will ensure that data maintains currency and relevance.
- **Continue to foster sectoral collaboration** - Amongst participants in the project, there is broad consensus that the NFP Benchmarking project has delivered real value in providing a forum to foster sectoral collaboration and improve back-of-house service provision. Furthermore, there was agreement that there is value in continuing to work together as a group and to invest the time and resources required to keep benchmarking data up to date – particularly given the anticipated changes in our sector over the coming years.
- **Build additional measures for back-of-house benchmarking** - Over the next two to three years the participating organisations will consider additional functions to benchmark (e.g. asset management, marketing and fundraising, facilitate and general administration).
- **Fulfil the intention to share valuable information with the broader NFP sector** – Nous and the organisations that have participated in this project are eager for the potential benefits of the know-how developed through this project to be shared by more organisations in the sector. We would like to see:
 - governments and peak bodies playing a key role in facilitating benchmarking
 - insights feeding into community services sector reforms in all states
 - an expanding body of good practice knowledge that is easily accessible
 - communities of practice continuing to grow organically
 - the sector taking gradual ownership of the benchmarking processes and data.

¹ Some functions have shown stability over the three years and it is considered that a review is only required once every two or three years.

Appendix A Data qualifications and considerations

Benchmarking information in this report is presented as the mean or median for the key cost and quality KPIs for each of the benchmarked functions. It is important to consider the cost and quality of benchmarking information in tandem, without placing disproportionate emphasis on costs. Notably, often there is a considerable time lag between investment in services and improved outcomes as improvements are being implemented and embedded.

Benchmarking is a useful tool to identify which participating organisations provide high quality, low cost back-of-house services, and which participating organisations might have opportunities to improve their services. While information about organisational context and practice has been gathered, it has not been used to adjust the cost or quality of services – i.e. there is no ‘difficulty’ or ‘complexity’ weighting for delivering back-of-house services. NFP benchmarking information should be considered in the context of:

- **A seven-point scale was used for satisfaction** with back-of-house ratings – from 1 (Highly Dissatisfied) through to 7 (Highly Satisfied). Appendix B provides further information on the satisfaction ratings.
- **Data accuracy has improved over benchmarking years** – Year 3 has undoubtedly produced the most accurate data of the life of the NFP Benchmarking project. Improved data is the outcome of greater familiarity with the data collection process and improvement in the organisation’s rigour in data measurement and collection. Therefore, year on year change may be misleading in some cases.
- **Costs, effort and other information are sometimes estimated** – they are not exact. Staff were instructed not to spend too much time gathering data – as this reduced the time they had to provide quality services. Most organisations do not use a timesheet system that allows time to be accurately allocated, and financial reports often directly relate to each of the benchmarking categories. However in this second year of the benchmarking study, the data quality was considered to be very high by the group.
- **Low cost needs to be considered in context** – the NFP sector operates in a constrained funding environment. Often benchmarked organisations indicated that they were underservicing some back-of-house functions due to cost constraints.
- **Cost investments in back-house services often have a long term return on investment.** It is not unusual to see high cost KPIs and low quality at the early stages of investment as there is a natural time lag between investing in back-of-house services and accruing a dividend. This is apparent in performance management and training where cost investments are made in the current period and increased participation and organisational knowledge are accrued over a several year period.
- **Good back-of-house services enable staff to deliver quality, efficient front-of-house services.** It is difficult to measure the contribution back-of-house services makes to staff efficiency and organisational effectiveness. Proxies such as staff satisfaction and retention have been used instead. *Although cost KPIs are easier to measure, readers are advised not to focus too heavily on cost* or staff may end up burdened with ineffective back-of-house services, become less efficient and be impeded in their service delivery to clients.
- **Smaller back-of-house services have a higher margin of error.** For example, if an organisation spends just 0.2 FTE on financial reporting, payroll or helpdesk services, and there is little other cost, an increase or decrease of 0.1 FTE would adjust the cost up or down by 50% – a significant difference in service cost KPIs.

- Where an **average** is stated, it is the **median** across benchmarked organisations.

Appendix B Staff satisfaction

The measurement and benchmarking of the quality of all back-of-house services (with the exception of compliance) required at least one measure of overall staff satisfaction with that particular service and/or activity. In some instances, the satisfaction of particular stakeholder groups (such as board members or program managers) was also assessed.

Organisations were required to provide data on satisfaction levels according to the seven point Likert scale below:

1. Highly dissatisfied
2. Dissatisfied
3. Slightly dissatisfied
4. Neutral
5. Slightly satisfied
6. Satisfied
7. Highly satisfied.

If organisations had already gathered relevant satisfaction data prior to the benchmarking, they were asked to convert the data to a seven point scale, with 4 being the neutral midpoint. Two of the twelve organisations took sample surveys to rate staff satisfaction, with the remaining ten organisations surveyed all staff.