And share alike…

Charles Nall says CharITyshare is the best of both worlds

CHARITYSHARE LTD IS THE JOINT VENTURE between The Children's Society and NSPCC, holding the two charities' shared information technology infrastructure, saving them over 20 per cent of their original costs whilst deepening the quality and sophistication of that infrastructure: providing better and cheaper tools to the people working with the nation's most vulnerable children.

The Children's Society has been established 124 years, providing care and interventions to assist four groups of children: those at risk on the streets; those in trouble with the law; those who are refugees (particularly unaccompanied children); and those who are disabled and in need of support (particularly through advocacy in the care system).

NSPCC is a relative newcomer; it has been established for 121 years. It is well known as the charity whose purpose is to end cruelty to children. Its vision is of a society where all children are loved, valued and able to fulfil their potential. It undertakes its work through interventions that include investigation, family centres and a National helpline.

Not in competition

While the major children's charities may be seen to compete for fundraising income, their distinct missions mean that they seek to co-ordinate their direct work and back offices to ensure the maximum overall benefit is delivered to children and young people. Since vulnerable children often have to be reached out to and found, it is a common characteristic to the four large children's charities working mainly in the UK to have small teams scattered across the country. Nationally, deprivation tends to be concentrated in particular rural and urban areas. Inevitably, the charities have work concentrated in quite marked clusters.

Meanwhile, The Children's Society had reached the end of a three-year IT strategy period. We were one of the cheapest providers of IT infrastructure, given our dispersion mentioned above, among those contributing to benchmarking carried out across the whole charity sector. We also operated to the high standards often incorporated into commercial style service level agreements.

While the future infrastructure choices to be made were reasonably obvious (broadband telecommunications with a virtual private network around Microsoft offerings with their enhanced remote network management capabilities), it was also clear that further scale economies were needed. We had to decide whether to outsource or not.

NSPCC had reached similar conclusions on infrastructure strategy – not surprising, given the broadly similar underlying business model. For NSPCC, as a major charity brand with the data handling and communications needs implied by that status, investing in technology slightly closer to the leading edge gave some business advantages.

In pursuing efficiencies and co-ordinating responses to financial concerns facing children's charities and the wider sector, the finance directors of all the large children's charities meet regularly in a variety of forums. The Children's Society shared concerns over its IT costs and found common ground, especially with NSPCC. John Graham, NSPCC's finance director, said they were likely to have a technician going one way only to be passed by one of ours heading the other way.

The major charities undertook to benchmark their IT infrastructures. This confirmed their similar business models, differing types of internal infrastructure and plans for it, and so differing levels of costs per personal computer. It became clear that at approaching 5,000 PCs, the very largest charities, NCH and Barnardo's, were capable of creating stand-alone internal infrastructures that could mirror the efficiencies of some outsourcing businesses. By themselves, The Children's Society and NSPCC could not, with about 3,000 PCs between the two charities.

To assist the charities take the benchmarking exercise forward into a business plan, a consultancy, Z/Yen, was engaged. Z/Yen's speciality is risk/reward management. It has an extensive IT practice, including leading edge users of technology such as the major investment banks as well as many charities. Z/Yen was already retained by The Children's Society and one of its principals, Ian Harris, led Z/Yen's input into CharITyshare. Their input might best be summarised as bringing a high awareness of what was possible, what was sensible and what was stupid; coupled with excellent project management skills applied through mentoring and supplementing the two heads of information technology in the charities.

Objections to outsourcing

The Children's Society and NSPCC were both nervous of outsourcing. There were three main reasons for this:

- VAT. Charities don't trade like a commercial business. They give their resources to their beneficiaries. As a result, they often can't charge VAT and therefore are unable to recover VAT paid to their suppliers. To outsource would incur heavy VAT penalties. Typically, outsourcing should achieve a 20 per cent cost saving to cover the costs of set up and the accompanying risks. If VAT takes 17.5 per cent, the rationale disappears – there is insufficient reward for the costs and risks.
- Costs of due diligence and managing an outsourcing arrangement can be high. Quite rightly, an outsourcer will want to be sure exactly what it is taking on and will charge to find that out and to take on substantial new business. The arms-length nature of the agreement means that such contracts must be managed with some retained internal resources: outsourcing is never quite as complete nor as cheap a solution as it at first appears.

  Also, outsourcers tend to operate on a low ball entry or basic service charge and then top up payments for specification changes. For two charities committed to moving their IT functions ahead across a broad front, the latter was an unacceptable unknown. We were of the view that we would rather manage our own project uncertainties than manage the contractor's imperfections as well as a project's technical and user-behaviour change issues.
- The core recipient of the outsourced service is likely to be someone working directly with vulnerable children. Dealing with such children's difficulties can be extremely stressful. Neither charity was comfortable with the culture fit of its staff interacting with the service desk of an organisation unused to dealing with individuals under such intense emotional and practical pressures.

The second and third factors combine to create a very specific risk. While the outsourcing can be constructed as a TUPE transfer, the risk is that the transferred staff become either disaffected under new management or taken on to other assignments. Thus, relatively quickly, the specialised knowledge of the infrastructures of the two charities could be lost and service could degrade technically and in terms of cultural responsiveness. In some cases, where the IT teams are weak, this might be a risk worth taking. In this instance, both charities had relatively strong IT teams and did not want to lose key staff.

In the light of reaping scale economies, allied to the commonalities of business model and infrastructure plans, The Children's Society and NSPCC prepared an outline business case for their trustee boards. This addressed the probable business model, the key risks and their mitigation, and the likely costs.

The business model was very straightforward. Information technology is becoming fairly standard for organisations such as the major children's charities. This infrastructure is influenced by, but remains separate from, the databases or applications that individual organisations run on it. For example, while finance functions in both organisations use a networked PC to access their data and transactions, the finance software packages are different. The definition of the infrastructure included: all user hardware, standard user software (Windows and Office), networks, the server farm, the helpdesk, field-based support, technical support, training and quality assurance.

Governance derived from the structure. The charities' two finance directors were to be the directors of CharITyshare. The charities each own equal shares in the entity, but divide service costs equitably. The articles and memorandum were to be supplemented by a management agreement that parcels costs out on the basis of either a cost per PC for agreed services or on a cost reimbursement basis for so-called 'special services' for one or other charities. The management agreement would appoint the two charities' honorary treasurers as the ultimate dispute resolution body. The two treasurers gently delivered the message that, if their intervention was needed, the finance directors would probably need to find other jobs as part of the resolution.

On costs, the two charities could meet or beat the level of an outsourcing house. The reasons for this were: the lack marketing and sales costs; the absence of profit distribution; the reduced level of retained IT management resource; and the reduced costs of due diligence in an environment where trust levels were high. The costs were seen to be considerably lower than staying with an in-house solution, by at least 20 per cent, for both charities.

CharITyshare's costs were anticipated to fall over a three-year period to a total saving of 25 per cent of pre-merger costs.

The major risks of shared services were seen to be, firstly, about people: would the staff accept that it was better to work together than be outsourced? In undertaking a restructuring driven by costs derived from external technology changes, it was essential that the successes of the two IT teams be regularly recalled. What was under consideration was a merger from a position of strength. A key feature of the business plan was that staff should be lost through natural wastage where at all possible.

Secondly, the technology and project management was likely to carry risks. Migrating nearly 3,000 users to a combined infrastructure was not to be undertaken lightly. This was phased. The phases were: user commonality and networking; shared services (or help) desk along with shared training and quality assurance; and technical infrastructure sharing. A further phase of agreed development was outlined, including voice over internet protocols for internal telephony.

The proposal was evaluated against staying in house or outsourcing. Co-sourcing won the day on the grounds given above. The degree of subsequent control and specificity to the two charities' needs was a key driver with the charities' trustees , many of whom had experienced these concerns in business.

What happened in practice?

Fortunately, both organisations were in the early stages of rolling out broadband networks and upgrading to Windows 2003. These plans were formalised to a common specification and its delivery was accelerated to deliver a common technical specification for all users. For the best part of a year, while the venture was being planned, IT projects in each charity were jointly vetted to ensure that they were "CharITyshare ready".

A thorough examination of the two charities' central IT provision allowed learning on best practice to be gathered from both. The transition plan stretched well beyond the formal launch of services. The Children's Society's server farm was moved to the same site as NSPCC's, then the combined technical team carried out a gradual transition of both charities' infrastructure to a common server farm.

Licensing software could have been a very serious issue. Fortunately, nearly all suppliers were welcoming of the initiative, perhaps on the basis that it represented a rare opportunity for software suppliers to offer real pro-bono value at little real cost to themselves. Nevertheless, both charities were and are grateful for the permissions they received and, in particular, for the generous assistance provided by Microsoft. Issues such as data protection have been widely addressed in many other similar outsourcing and data processing initiatives and, while novel to the two charities, were relatively straightforward legally.

Masons, subsequently Pinsent Masons, was the advising solicitors and was appointed after a competitive tender. Its ability to draw together a credible team from its commercial, tax and employment specialisms was key.

Keeping staff happy

Change and communications both within the directly affected customer groups and within the two organisations were given a high priority. Staff turnover was carefully managed, so that in the end only one member of staff had to be made redundant. Staffing the service desk was initially higher than anticipated to cope with the early call volumes and is now back at planned levels. The two charities' heads of IT co-managed the project. While this arrangement worked well for CharITyshare's specific circumstances, a single lead manager, perhaps an external interim manager, might be a better option in many cases.

The project came in on budget. That outsourcer costs had been matched was subsequently confirmed in 'Chatham House' discussions with an outsourcing house at a recent conference: outsourcing provider costs can be beaten. Customs were pre-occupied by their merger with the Inland Revenue. In the event non-binding VAT guidance was given, the final clearance not being received until 10 months after CharITyshare's launch.

CharITyshare went live in November 2004 and was formally launched in January 2005. Ongoing savings were put at £0.8m per annum and have been achieved. The venture won a Highly Commended citation at the UK Charity Awards in September 2005 and the judges commented that "the rest of the sector should take note of what has been done here".

The combination of The Children's Society's operational disciplines acquired through thinner resources and the NSPCC's more advanced technology has resulted in a stunning success for the not-for-profit sector, both in the individual solution that CharITyshare represents and in the wider message to donors and potential staff that charities are professionally run to the highest standards, making best use of funds and talents.

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