The best of both worlds

Charityshare, conceived in 2003 and formally launched in January 2005, is a joint venture between NSPCC and The Children's Society to co-source IT services. Charles Bartlett, John Graham, Ian Harris and Charles Nall explain how the venture came into being, the benefits it has produced and offer advice for others looking to do the same

Charities find it hard to provide IT services economically, efficiently and effectively. Even most large charities are too small to enjoy substantial economies of scale. Many are looking at outsourcing and offshoring in an attempt to reduce costs, but this is sometimes at the expense of quality. In 2003, both NSPCC and The Children's Society were grappling with similar issues and conclusions on IT infrastructure; both charities wanted to reduce costs through economies of scale and to maintain or improve quality of service, and both charities were nervous about outsourcing their IT infrastructure.

NSPCC and The Children's Society then benchmarked their IT infrastructures. This exercise, useful in itself for shared learning, confirmed many of the points we had suspected. The business models for the two charities, from an IT infrastructure perspective, were very similar. Both IT operations were reasonably efficient and well run, so outsourcing looked unattractive; the cost of due diligence, the irrecoverable VAT penalty suffered by charities when outsourcing plus the profit layer for the outsourcing company would erode any realistic benefits from economies of scale from outsourcing. Establishing a co-sourcing, collaborative venture between the two would offer member charities the best of both worlds; most of the economies of scale that outsourcing would have provided while retaining the benefits of an in-house provider who understands how to service the charities.

We drew up a business case for the two trustee boards, addressing the scope of the proposed venture, the business model, governance system, risks, mitigation of risks, costs and benefits.

Scope, structure and governance

The scope of the venture includes all operating services including user hardware, standard user software (e.g. Windows and Office), local and wide area networks, server farm, helpdesk, field support, training, purchasing, quality assurance and technical support, but not confidential databases and strategic applications.

Structuring the venture purely for the benefit of charities and ensuring that the venture did not create additional taxation burdens on the charities involved was a tricky problem to solve. Charityshare Limited's sole purpose is to act as a nominee for its owners (members). The Memorandum of Association also permits only registered charities to become members of the company, and based on that provision and the requirement to agree any changes to the Memorandum with the Charity Commission, the Commission granted permission for the company to use the word "charity" in its name. The member charities own equal shares in the entity but divide service costs equitably based on use. The venture has also been structured flexibly to enable other charities to join Charityshare in the future.

The finance directors of the charities involved are the formal directors of the venture, but the governance works through a strategic governance board and an operational governance group, comprising the directors, information systems representatives from each charity, the Charityshare head of service delivery and some external expertise (e.g. Z/Yen Limited).

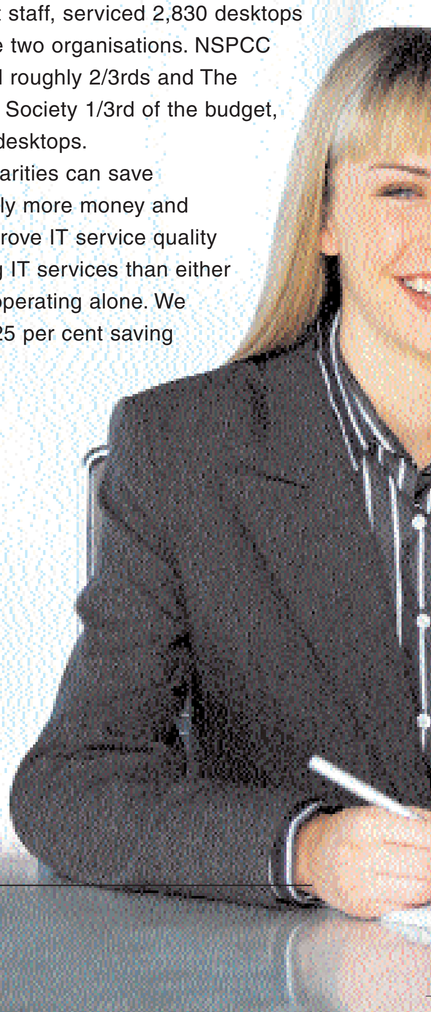
While Charityshare has its own legal personality, it is, to all intents and purposes, merely a legal shell that provides the only workable solution to the problem of charities wanting to pool their information technology functionality. On the basis of these arguments, HM Customs and Excise has agreed to the principle of Charityshare's VAT neutrality between its members.

We carefully planned the implementation during 2004, while the legal structures, governance and business models were being agreed. The entity went live in pilot mode during November 2004 and went properly live in January 2005.

Stacking up the numbers

The combined budget at the outset of the venture was £3.26 million. This budget, which included the cost of 56 full-time equivalent staff, serviced 2,830 desktops across the two organisations. NSPCC comprised roughly 2/3rds and The Children's Society 1/3rd of the budget, staff and desktops.

Both charities can save significantly more money and better improve IT service quality by sharing IT services than either could by operating alone. We estimate 25 per cent saving



achieved over three years equal to £800,000 per annum across both charities, once achieved. This will mean more money to spend on children and young people. We also estimate that from joint input costs of £3.26 million per annum, the resulting co-shared service organisation will have costs of £2.4/2.5M per annum at current scale and prices after three years.

Over a year into the venture now, the anticipated savings are significantly ahead of schedule; we now hope to achieve those savings within 18 months to two years of launch.

Savings have been achieved by upgrading to broadband and eliminating duplicated IT infrastructure and telecommunication links. This has been combined with the merger of services and reducing staff levels.

Importantly, measurable service quality indicators are improving, as the benefits of combining forces enables the use of better tools and techniques for service delivery. We regularly undertake user satisfaction research to test whether the service quality is well received. Initial research and informal feedback so far is largely very positive and encouraging.

Lessons for other charities

In September 2005, the venture was highly commended for Best Use of Technology at the UK Charity Awards. The judges took pains to state that "the rest of the sector should take note of what has been done here".

We believe that many charities could benefit from the co-sourcing approach we have used, and Charityshare itself is able to welcome other appropriate charities into its structure.

Alternatively, consortia of charities could use the same, or similar, structure for co-sourcing their activities; perhaps IT or possibly other services that can benefit from a shared approach.

Charityshare took nearly two years from concept to implementation. However, as we have done much of the structural ground work, which need not be repeated, we believe that a similar venture starting from scratch might be up and running within a year. A charity choosing to join Charityshare itself might need six to nine months to formulate a business case with us and then see it through due diligence to implementation.

But co-sourcing is no quick fix. It is a medium- to long-term commitment and you need to be in a position to take time to structure it, plan it right and choose your co-sourcing partners carefully. It is usually far harder to extricate yourself from a co-sourcing arrangement than to terminate an outsourcing deal; a problem if the arrangement is ill-conceived or goes sour. However, it was easier to win the hearts and minds of staff for co-sourcing than it is for outsourcing. We wanted to retain the vast majority of the staff and retention rates are, if anything, better than they were before the venture.

In short, the venture has demonstrated that it is possible to achieve that best of both worlds situation; economies of scale together with an in-house quality and culture.

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