

# TRUE COSTS PROJECT

Transparency and equity in Community Sector budgeting



## Description of the project

This project aims to identify the real cost (hence "true costs") of running a Burnside Direct Service Program by including in the cost base of that program a legitimate share of Burnside's agency wide infrastructure costs.

Why?:

Gradual depletion of Burnside's innovative capacity due to our own funds having to ensure funded program viability

Risk to our overall viability

## Operating Principles of the model:

- Agency-wide costs are examined to ascertain those costs which can legitimately be transferred to programs
- The allocation of these costs to programs is equitable, based on a pro-rata formula
- The allocation will be done centrally
- Renegotiation of contracts will reflect (i.e. include as funding) true costs wherever possible
- All new submissions will include these agency-wide costs
- We will work collaboratively on this with other 'like' agencies

## Agency-wide cost clusters

- Quality Assurance  
e.g. Research and Evaluation
- Business Management & Compliance  
e.g. Audit and Accounting
- Information Systems  
i.e. Intranet and Network
- HR & Payroll
  
- Agency Governance  
e.g. Board, CEO
- Agency Management and Support  
i.e. % of Senior and Middle Management

## Quality Assurance

Functions of an agency that support direct service provision in terms of:

- service planning and development,
- leading edge knowledge base,
- evaluation against accepted benchmarks,
- service information to service users and funders
- monitoring, supervision and support

## Information Systems

Functions of an agency that provide

- wide area network infrastructure and support, including the capital and depreciation costs and ongoing maintenance and upgrade costs of that network.
- technical expertise to plan, implement, train, and maintain the information technology required.

It should be noted that this cluster is additional to a computer support levy that is already applied per PC/notebook that is attached to each program.

## Business Management & Compliance

Functions attached to the efficient running of financial services providing

- accounts payable and receivable
- electronic accounting system
- financial reporting
- registers of assets (including the motor vehicle fleet), provisions, and funding records
- contracts, contract renewals, accountability requirements
- insurances, insurance issues
- delegations, authorisations, and financial policies
- auditing requirements and other accounting compliance
- property and grounds

## HR & Payroll

Functions related to the management of human resources such as:

- Recruitment & induction
- Employment Terms and Conditions
- Employment Policies
- Agency-wide Training
- Occupational Health and Safety
- Workers Compensation
- Payroll
- Fringe Benefits (Salary Sacrifice)
- Superannuation
- Staff Consultative & Safety Committee

## Agency Governance

Functions of an agency relating to:

- CEO level activities in representing direct services and basic running of the organisation
- certain promotional activities which maintain direct services reputations and image in the community and amongst stakeholders (including production of the Annual Report)
- Board of Management meetings, and their participation in agency activities and processes

## Agency Management & Support

### Functions to do with Agency Management Support

- line management of service coordinators
- input into service development and improvement activities
- coordination of service evaluation and review
- promotion / dissemination of leading edge information and research
- preparation and monitoring of budgets
- negotiations with funding bodies
- implementation and monitoring of agency wide planning directions and policy

## What is NOT included as Agency Wide Costs

- All income is excluded (expenditure, not the bottom line, is used) as we want to ascertain the **cost** of programs
- Special case cost centres (e.g. TILA) that are simply for financial tracking alone are excluded from overall direct service costs
- Any activity related to gaining investment, mortgage, share income etc... is not included as these costs are offset by the income gained and treated separately to this project
- Other 'partial' exclusions deemed as not relevant to direct service provision (later slide)

## Simple Example:

### Direct Service Programs:

a. Program A costs	300	
b. Program B costs	<u>500</u>	
c. TOTAL apparent costs	<b>800</b>	(= a. plus b.)
<b>d. Infrastructure costs</b>	<u>200</u>	
<b>TOTAL Agency Costs</b>	<b>1000</b>	(= c. plus d.)

### Cost dispersal:

Program A	<b>75</b>	(= a./c. x d.)
Program B	<b>125</b>	(= b./c. x d.)

### New True Costs:

Program A	375	
Program B	<u>625</u>	
	<b>1000</b>	

## First Run - 2003 2004 Budget

Cluster	% levy
Quality Assurance	9.75
Information Systems	3.25
Compliance	5.00
HR & Payroll	2.75
Agency Governance	2.50
Management	5.75
<b>Total</b>	<b>29%</b>

## Partial Exclusions of Agency Wide Costs

50% Social Justice and Research/ Evaluation

62% Public Relations and Fundraising

50% Finance Administration

20% CEO

In the application to Burnside's 2003 2004 budget, this meant \$995,045 was excluded from the agency wide costs side of the equation

= 17.8% of the overall agency wide costs

(this, if included, would have increased the overall True Cost component of budgets by 7.6% to 36.6%)

## The discount adjustment

Assumption that STAFF establishments largely drive infrastructure costs

Inequity then for programs with LARGE associated and other costs (e.g. OOHC)

Standard Burnside Salary Ratio Ruler - standard ratio of Salaries and Oncosts to total expenditure = 73%

Each program standardised against this ruler

NO program to wear more than 29% BUT those with actual ratios LESS than 73% are adjusted down accordingly

## Effect on "Rollovers"

True Costs effectively means rollovers will be very rare indeed! = the myth of 100% funding a thing of the past

Management stays in control - under certain circumstances and agreements rollovers can still be preserved:

e.g.

- CFSS Fathers FF rollover
- RAPT Brokerage rollover

Communication to funders through practice and transparency (and good sound argument)

## New Funding Submissions

ALL True Costs will be calculated and shown in all budgets

At the very least, Burnside will opt to cover Quality Assurance (9.75%) as the Burnside contribution

Management decisions can always be made (e.g. we can elect on certain grounds to opt to cover MORE of the infrastructure costs)

Two sides of the issue:

- IF we do this we might price ourselves out of new business
- **IF we do NOT do this we might cost ourselves out of ALL business!!**

## Where to from here?:

- First year implementation at Burnside 2004 2005
- Further Benchmarking with others (Ben Soc)
- Promotion in the sector (ACWA, NCOSS, DoCS)
- Review to REDUCE infrastructure costs over time