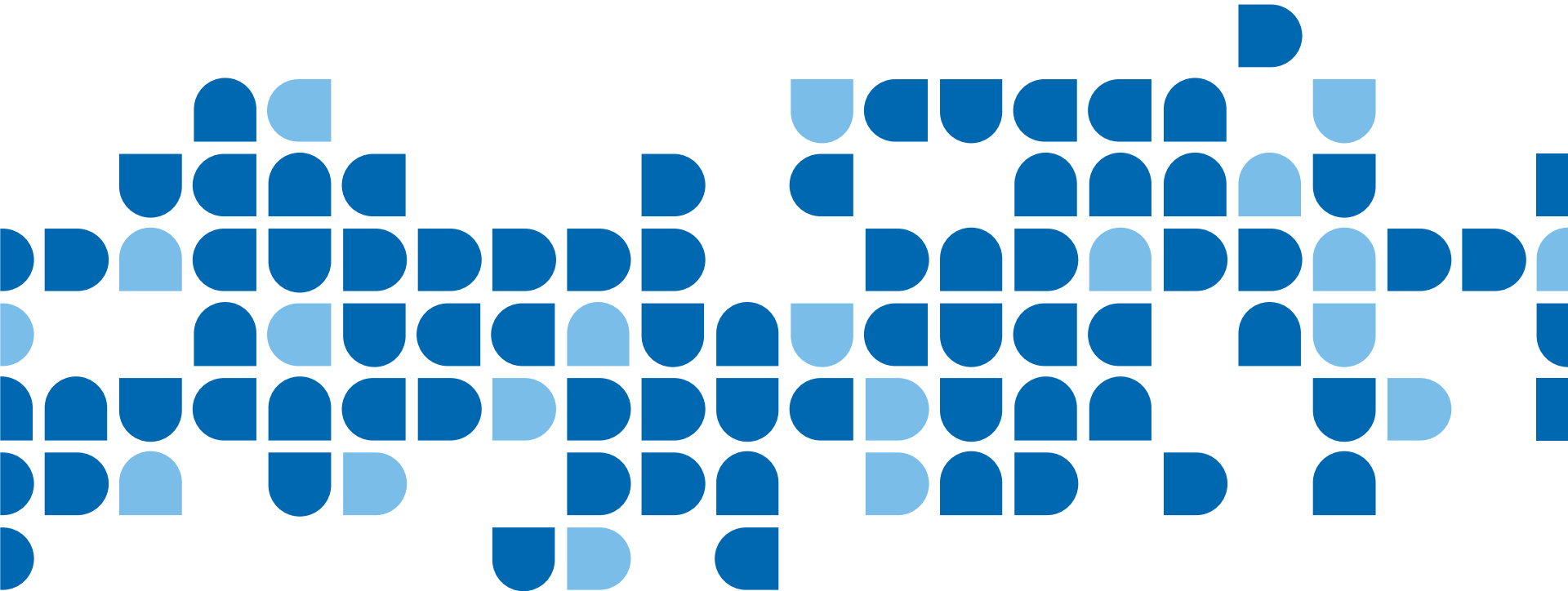


# Savings without sacrificing the mission: Best practices for optimising administration costs



Jess Thorne

*Changing  
Lives.*

## Introduction

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### **Jess Thorne, Assistant Manager**

Jess' passion is apparent through her work with not for profit boards, both as an accountant and as a volunteer.

It is equally demonstrated through her commitment to mastering the fast-changing world of cloud accounting. Her detailed knowledge enables her to help clients solve problems they often don't know they have.

### **William Buck NZ**

William Buck is a leading firm of Chartered Accountants and Advisors with offices across Australia and New Zealand. Established in 1895, we have over 100 directors and 600 professional staff, and are wholly owned and operated in Australia and New Zealand.



## Themes for today

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- ✓ Explore definitions of costs and expenses
- ✓ Attitudes towards costs and expenses in the “Not for Profit Sector”
- ✓ Reducing costs without reducing quality
- ✓ Managing costs and expenses to provide a buffer for savings



## Are “costs” a dirty word in the NFP sector?

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Lets do a survey?

Response	Numbers
Yes	
No	
Not sure	



# Is the NFP sector scrutinised more for spending than any other sector?

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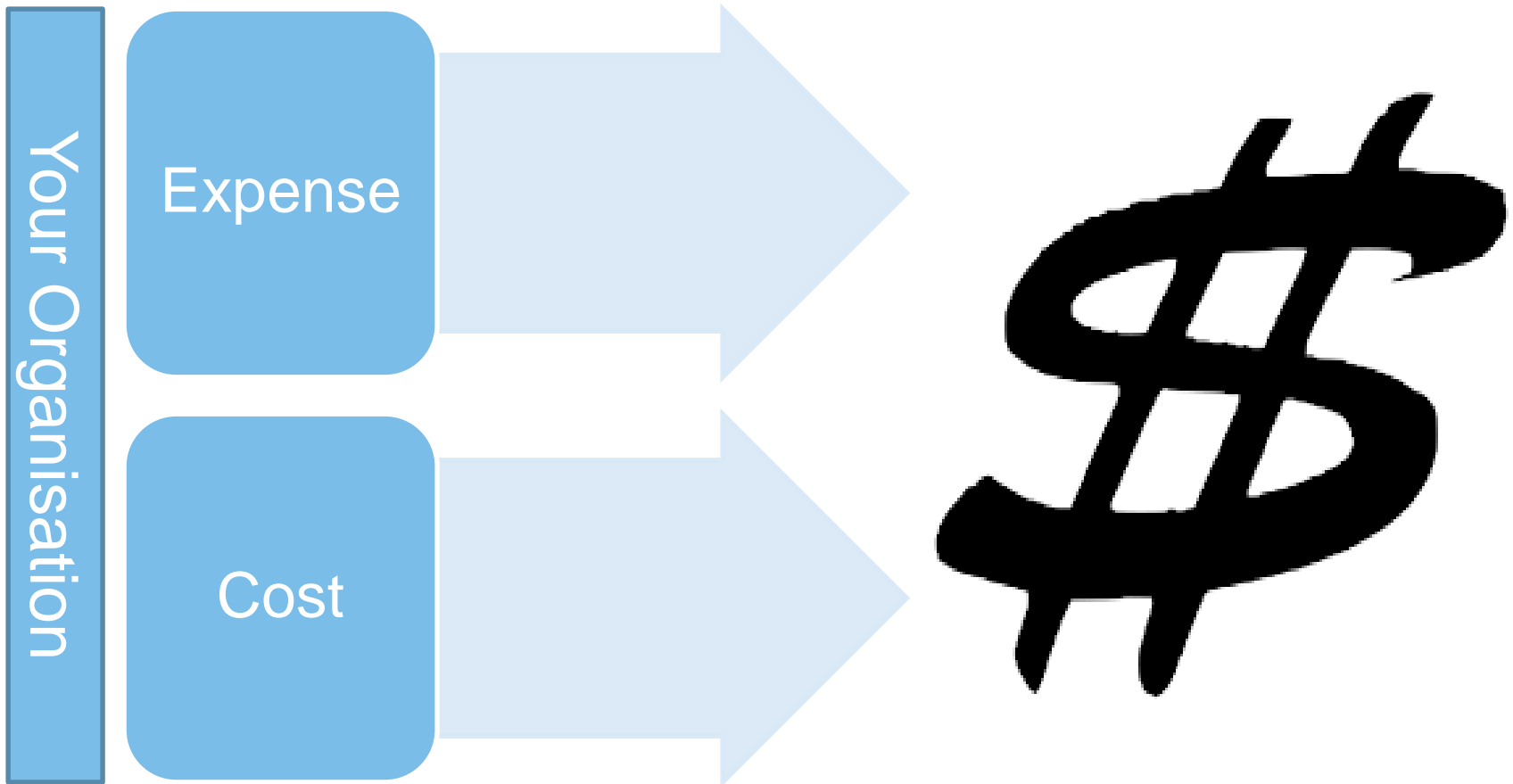
Lets do a survey?

Response	Numbers
Yes	
No	
Not sure	



## What is the difference between costs and expenses?

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## Example of money leaving your organisation

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our organisation purchases a van, it costs your organisation \$20,000.

Throughout the year you have to purchase petrol and it cost you \$2,500.

Both are costs to your organisation but only one is an expense.



## Is the van cost an expense?

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If your organisation purchases a van, the van's cost will initially be recorded as an asset on your organisation's balance sheet.

However, the van's cost will become an expense over time due to the **Depreciation Expense** to reflect the van being "used up" in your organisations activities.





## Different classifications

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- Operational Costs or Expenses
  - fixed costs
  - variable costs



## Operational costs

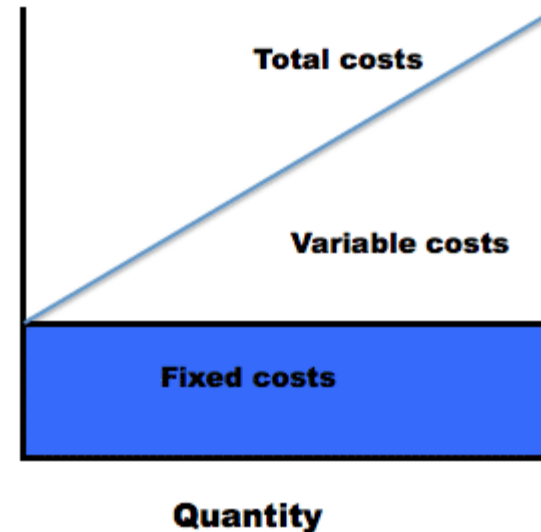
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### Fixed costs

A fixed cost is the same, doesn't matter at what level the organisation is operating at.

### Variable costs

A variable cost increases as the organisation increases its level of operation.



What should your not for profit's attitude be to fixed costs? Why?

## The stigma – charities and money

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- Money is scarce
- Needs to be spent wisely
- Priorities – determining and strategic alignment
- Leakage of funds
- Funders and donors expectation
- Onerous accountability expectation



## Measuring charity performance

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- Common in the USA, Canada and UK
- Applicable to NZ?
- What would be some of the criteria?
- Lets look at these two overseas sites – Charity navigator and Charity watch
- Charities Commission

Focus of overseas rating sites is on Fundraising Expenses and Administration Expenses





DO SOMETHING GREAT

The barriers:

- ✓ Too many charities
- ✓ Duplication
- ✓ Bloated organisations
- ✓ Doing the job of the government
- ✓ Unrealistic expectations
- ✓ Don't know where my donation goes



Expectation on  
charities

## Doing something great without sacrifice

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- Assess the impact of the cost cut on operational effectiveness.
- Cheaper alternatives/substitutes but no effect on quality e.g. supplier change
- 1% reduction.
- Use of technology/innovation – appropriateness?
- Will it align with the strategic goals?
- Who will monitor this? Who is supporting it? Need Board support and leadership buy in.
- Focus on how to cut not how much to cut.
- Effect on long term value creation.
- Input from employees.
- Challenge core assumptions – the way business has always been done.
- Not everything requires a team.
- Policy review.
- Employee travel costs.
- Contractors versus employees – associated costs.
- Maximising the skills of the current talent pool. Retaining key employees.
- Hourly vs. Salary employees.
- Little adjustments add up over time – go green, go paperless.

## Best practice – ensuring the spend is being optimised

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Responsible management and governance would:

- ✓ Have budgets and rolling forecasts
- ✓ Reporting to budgets
- ✓ Dealing with exceptions
- ✓ Monitoring of cost cut strategies



## Budget

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1. You prepare a budget to project your Income and Expenses for the next twelve months
2. Should be prepared before the beginning of the next annual financial period
3. Should be entered into the budget fields in your accounting system
4. Print management reports comparing actuals to budgets





# Budgets

## — Structure

- Profit and Loss
- Capital Expenditure
- Balance Sheet
- Cashflow

## — Annual vs monthly

- Purpose
- Resources



ITEM	BUDGET	ACTUAL	DIFFERENCE \$
Rent	\$1,200.00	\$1,200.00	\$0.00
Food	\$675.00	\$726.45	+\$51.45
Gas	\$100.00	\$89.15	-\$10.85
Entertainment	\$225.00	\$174.38	-\$50.62
	\$2,200.00	\$1,590.00	\$610.00

# Annual vs Monthly format

## EVENT BUDGET WORKBOOK

CATEGORY		PROJECTED SUBTOTAL
<b>Venue</b>		<b>\$ -</b>
SUBTOTAL		\$ -
Location Rental		
Equipment Rental		
Additional Tables / Chairs		
AV Equipment		
AV Staff		
Venue Specific Staff		
Venue Specific Catering		
Wifi		
Venue Tech Support		
Security		
<b>Décor</b>		<b>\$ -</b>
SUBTOTAL		\$ -
Linens		
Lighting		
Additional Signage		
Additional Furniture		
Additional Decorative Items		
<b>Food / Beverage</b>		<b>\$ -</b>
SUBTOTAL		\$ -
Food		
Beverage		
Catering Staff		
Bar		
Additional Bar Staff		
Additional Coffee Cart		
Take-Away Food / Beverage		

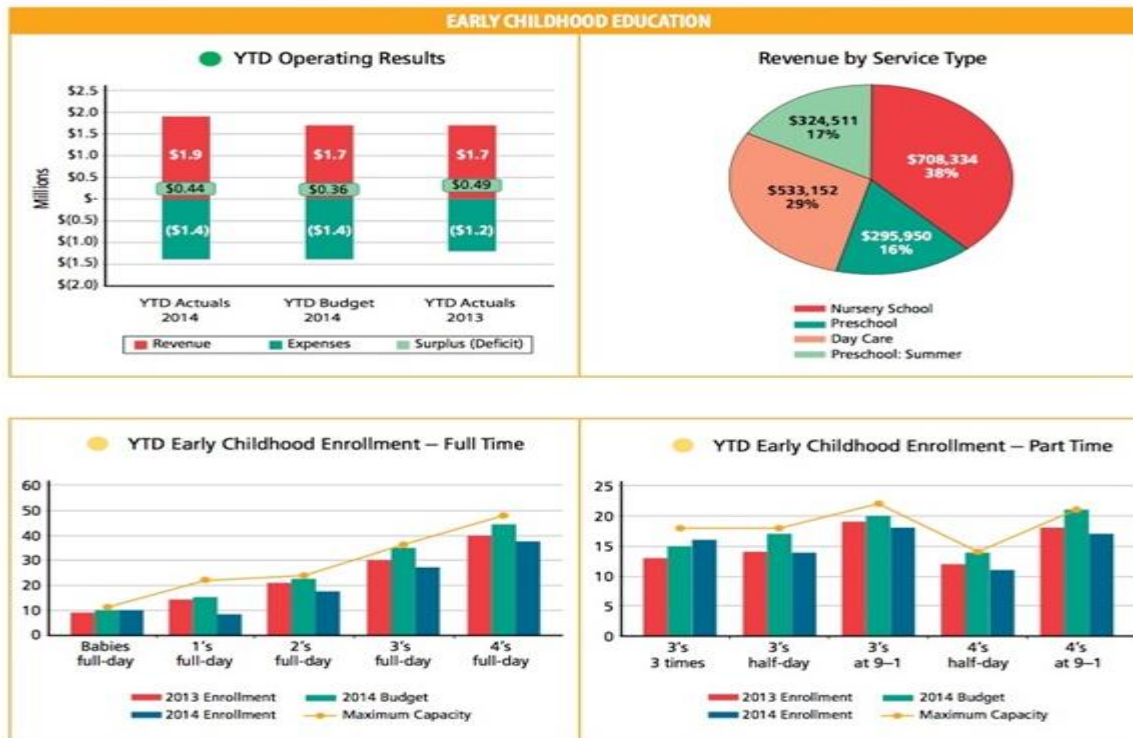
# Annual vs Monthly format

[Company Name]													* Corporate Finance Institute®. All rights reserved.
Profit and Loss (P&L) Statement													
[USD \$ millions]													
	2018												
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	Full Year
Revenue stream 1	587.0	596.3	605.8	615.4	625.2	635.1	645.2	655.4	665.8	676.4	687.1	698.0	7,692.6
Revenue stream 2	145.6	147.9	150.2	152.6	155.0	157.5	160.0	162.5	165.1	167.7	170.4	173.1	1,907.8
Returns, Refunds, Discounts	(21.0)	(21.3)	(21.7)	(22.0)	(22.4)	(22.7)	(23.1)	(23.5)	(23.8)	(24.2)	(24.6)	(25.0)	(275.3)
<b>Total Net Revenue</b>	<b>711.6</b>	<b>722.9</b>	<b>734.3</b>	<b>746.0</b>	<b>757.8</b>	<b>769.9</b>	<b>782.1</b>	<b>794.5</b>	<b>807.1</b>	<b>819.9</b>	<b>832.9</b>	<b>846.1</b>	<b>9,325.0</b>
Cost of Goods Sold	269.6	273.9	278.2	282.7	287.1	291.7	296.3	301.0	305.8	310.7	315.6	320.6	3,533.2
<b>Gross Profit</b>	<b>442.0</b>	<b>449.0</b>	<b>456.1</b>	<b>463.3</b>	<b>470.7</b>	<b>478.2</b>	<b>485.7</b>	<b>493.5</b>	<b>501.3</b>	<b>509.2</b>	<b>517.3</b>	<b>525.5</b>	<b>5,791.8</b>
<b>Expenses</b>													
Advertising & Promotion	18.7	19.1	19.5	19.8	20.2	20.6	21.0	21.5	21.9	22.3	22.8	23.2	250.6
Depreciation & Amortization	108.7	110.9	113.1	115.3	117.6	119.9	122.3	124.8	127.2	129.8	132.3	135.0	1,456.8
Insurance	1.1	1.1	1.1	1.2	1.2	1.2	1.2	1.3	1.3	1.3	1.3	1.4	14.7
Maintenance	5.7	5.8	5.9	6.0	6.2	6.3	6.4	6.5	6.7	6.8	6.9	7.1	76.4
Office Supplies	2.8	2.9	2.9	3.0	3.0	3.1	3.2	3.2	3.3	3.3	3.4	3.5	37.5
Rent	5.8	5.9	6.0	6.2	6.3	6.4	6.5	6.7	6.8	6.9	7.1	7.2	77.7
Salaries, Benefits & Wages	251.2	256.2	261.3	266.5	271.8	277.2	282.7	288.3	294.0	299.9	305.8	311.9	3,366.7
Telecommunication	1.5	1.5	1.6	1.6	1.6	1.7	1.7	1.7	1.8	1.8	1.8	1.9	20.1
Travel	2.3	2.3	2.4	2.4	2.5	2.5	2.6	2.6	2.7	2.7	2.8	2.9	30.8
Utilities	1.4	1.4	1.5	1.5	1.5	1.5	1.6	1.6	1.6	1.7	1.7	1.7	18.8
Other Expense 1	3.8	3.9	4.0	4.0	4.1	4.2	4.3	4.4	4.4	4.5	4.6	4.7	50.9
Other Expense 2	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenses	403.0	411.0	419.2	427.5	436.0	444.7	453.5	462.5	471.7	481.1	490.6	500.4	5,401.1
<b>Earnings Before Interest &amp; Taxes</b>	<b>39.0</b>	<b>38.0</b>	<b>36.9</b>	<b>35.8</b>	<b>34.7</b>	<b>33.5</b>	<b>32.2</b>	<b>30.9</b>	<b>29.6</b>	<b>28.2</b>	<b>26.7</b>	<b>25.2</b>	<b>390.6</b>
Interest Expense	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	30.0
<b>Earnings Before Taxes</b>	<b>36.5</b>	<b>35.5</b>	<b>34.4</b>	<b>33.3</b>	<b>32.2</b>	<b>31.0</b>	<b>29.7</b>	<b>28.4</b>	<b>27.1</b>	<b>25.7</b>	<b>24.2</b>	<b>22.7</b>	<b>360.6</b>
Income Taxes	10.9	10.6	10.3	10.0	9.7	9.3	8.9	8.5	8.1	7.7	7.3	6.8	108.2
<b>Net Earnings</b>	<b>25.5</b>	<b>24.8</b>	<b>24.1</b>	<b>23.3</b>	<b>22.5</b>	<b>21.7</b>	<b>20.8</b>	<b>19.9</b>	<b>19.0</b>	<b>18.0</b>	<b>16.9</b>	<b>15.9</b>	<b>252.4</b>

# Reporting to budgets

## Dashboard reporting – what is it?

Summarise the information to report on a one page dashboard. Makes it easier to educate non-financial board members about what they should be looking for.



# Rolling forecasts

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## What are rolling forecasts?

A rolling forecast is a type of financial model that predicts the future performance of a business over a continuous period, based on historical data. Unlike static budgets that forecast the future for a fixed time frame, e.g. January to December, a rolling forecast is regularly updated throughout the year to reflect any changes as time goes on.

## Purpose?

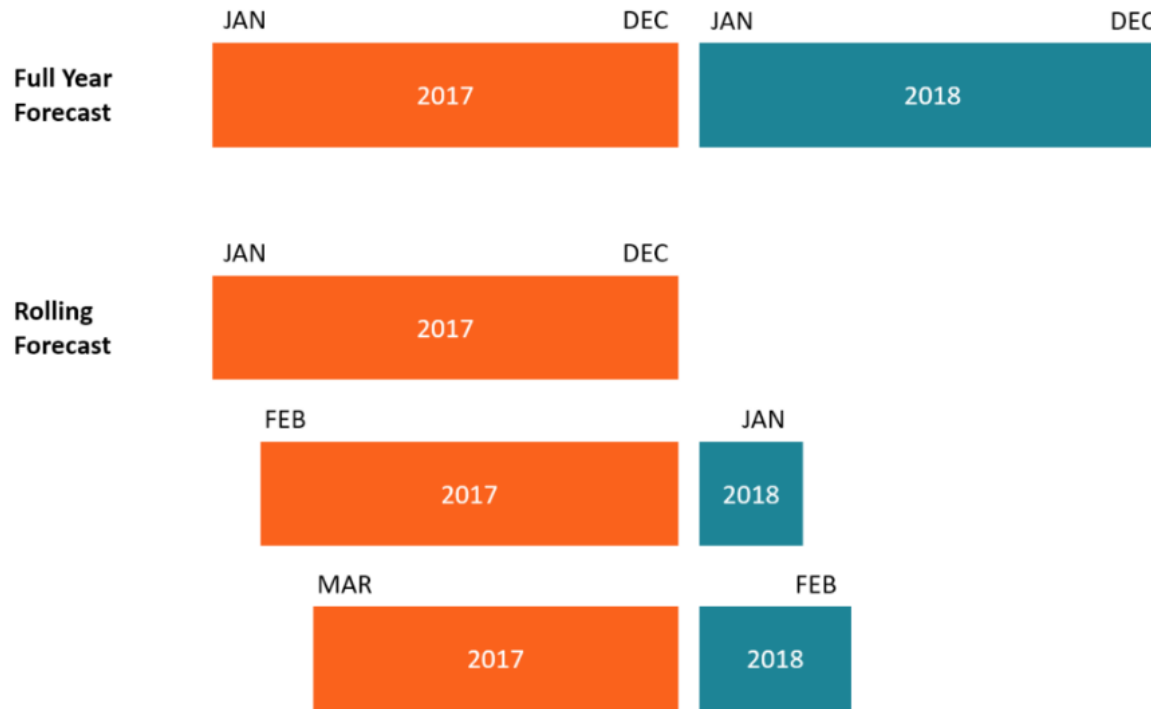
This enables not for profits to project future performance based on the most recent numbers and time frame, which offers an advantage when operating in a fluid and ever-changing environment.

## Maintenance

This requires the monthly update of the forecast model with actuals. This will have the effect of having the most up to date figures and seeing the effect on the future months.

## Rolling forecasts - layout

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## Dealing with exceptions

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### Thresholds?

Need to establish thresholds so you can make decisions on possible actions.

### What should management do?

Spending above budget need to be dealt with very aggressively. This should be done monthly.

### What should the board do?

Board also need to pay very close attention to monthly expenditure.



## Monitoring

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- Are they working?
- What can be done better, where are the issues/barriers?
- More that have evolved?
- Impact on quality.
- Impact on staff.
- Impact on profit.
- Re-implement.





# Thank you



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