Business Resilience Toolkit

Resourcing and costs

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Transcript:

Hello. In this video we're going to look at some simple ways you can identify the resources and costs required to run your service, and how you can plan for some resilience in your cost structure.

I'm Jane Arnott and I'm the general manager of consulting at Community Business Bureau (CBB).

Firstly, let's have a quick look at how you work out how much it costs to run your service or organisation. Particularly how you can make sure you identify some of the hidden costs that can sneak up on you.

The three key areas for you to consider are:

1. Direct delivery – what are the direct costs of running your service, based on the resources you need. Staff will be your biggest one; but you may also need to cover equipment, facilities, transport etc.

2. The costs of running your service well. What are the additional things you need to do to ensure that your service runs smoothly, that you provide a good service and that you continue to generate revenue? We've seen organisations miss some of these, particularly when budgeting new services

   This includes your compliance costs – for example you may have registration or audit fees for your service, and you may need to employ a quality manager. Human services providers are likely to have to provide staff with training.

   Plus, you should also think about your marketing costs. Even if you're not looking to grow, if customers leave your service for any reason, you'll need to attract new customers to replace them, just to hold your current position.

3. Indirect and back office costs: this includes things like insurance, IT systems, financial management, organisation leadership and governance

Secondly, let's look at how you can manage your costs to help your organisation be more financially resilient.

For business resilience purposes it's important to understand which of your costs are fixed – so they stay the same regardless of how much product or service you're delivering – and which are variable.

Fixed costs include your office accommodation, your CEO salary etc. For a registered NDIS provider, it also includes your registration and compliance costs. You need to factor these into your business planning and budgeting.

Variable costs will change as you offer more or less services – this could be room hire, or sessional worker wages.

If you understand your costs in these terms, you can look at reducing your variable costs when things get tough, and budgeting for them to increase as you grow. Depending how predictable your service volumes are, you might want to keep some elements of your costs really flexible, so you can increase or decrease your cost with changing demand for your services.

There are three straightforward ways you can do this:

1. Look at your workforce. This is probably your biggest cost. But there are a couple of ways you can build some flexibility and business resilience into your staffing costs.

   One option is to employ casual workers, rather than employees on fixed term or permanent contracts, with set hours of work. Many not for profits – particularly in disability and aged care services – do this already. Having casual staff enables you to flex your workforce up or down in response to service demand.

   Casual staff don't have access to sick leave or paid holiday, so if employing casuals doesn't suit you from an ethical or business perspective, you could look at cross skilling your workforce across different roles in your business. This allows you to move your workforce to where there is current demand. Many organisations did this in response to COVID-19 – for example moving workers from group work activities to one on one supports.

   Cross skilling is also a good way of managing some key person risks – and I'll talk more about that later.

2. Look at your office accommodation, and consider home working. Again, accommodation is often a major expense. You can either shift to a full home working model, so you don't need to maintain an office at all, or you can look at a mixed model of home and office working, so you can maintain a much smaller office.

   COVID-19 lockdowns have shown us that, with the right technology, many of us in office roles can work from home effectively.

3. Look at your supplier contracts. You might be better off avoiding fixed term, fixed supply contracts. For example, if you're paying for software on a 'per user' basis, month to month software licensing may be a better fit if your number of users keeps changing. This probably won't be the cheapest form of licensing – but it may be more cost effective in the long term if it allows you to decrease your licensing if your workforce reduces.

So, I said I would talk about key person risk. One of the problems we commonly see in small organisations is an over reliance on one or two people to do critical roles within the organisation. This could be client facing work, essential internal functions or a key leadership role.

When this person leaves or is sick, or has to deal with an urgent issue, the rest of the work of the organisation falls apart, or the critical function that they are responsible for stops, or at best stumbles. You can often spot them because they are the people that rarely take leave, or only for a short period. If the key person risk in your organisation isn't obvious, think about each of the people in your organisation and ask yourself what you would do if they weren't available for a month or more. If you would struggle, then it's worth thinking about strategies to manage a planned or unplanned absence of a key resource. This could include:

- Cross skilling other members of the team to cover for them.
- Outsourcing some of their functions to an external service provider.
- Documenting their work processes, so it's easier for someone else to pick up.
- Or increasing your resources – so you have more than one person working in the role.

All of these options will have an impact on your costs, but if your resources are too skinny, you're risking your organisational resilience, the welfare of your staff and the service to your clients.

Finally, to think through other ways in which you can manage your costs, you can work through some scenarios.

For example:

- If you had to cut 10% of costs tomorrow, what would you do?
- If you had to stop delivering one of your services, which resources would you cut back on?
- If your organisation is affected by a COVID lockdown again – what would you do differently?

These might not be the most appropriate scenarios for you. Your risk register will help you to identify the scenarios you can use to test your cost structure resilience and identify where you can build some more flexibility into your cost structures.

Related videos to watch next: Building a Risk Register.