Transforming
Not for Profit Services

Commercially Sensitive
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Funders Year End Report
Relationships Aotearoa
Capability and Sustainability Programme to 31 December 2014

Prepared for Relationships Aotearoa
By R Hamilton Director Vital Signs Consulting

Foreword

This following report is prepared for the Ministry of Social Development (MSD) is commercially sensitive and provided in confidence.

The report is designed and supplied to meet year-end Capability Investment Resource (CIR) grant requirements to 31 December 2014 only; as set out in the grant agreement and as discussed with the steering group by:

1. Providing an integrated picture of the capability programme's progress, in the context of Relationships Aotearoa's (RA) ongoing work towards its recovery.

2. Setting out key delivery challenges and learnings associated with this programme of work so as to inform future Not-For-Profit (NFP) recovery and capability investment in the NFP sector.

The report is not intended to provide a comprehensive analysis or formative evaluation of the combined programme delivered. This was not specified, nor funded. Additional funding and time would be required to develop a more detailed evaluative report of that nature.

The RA Board, RA's Chief Executive (CE) and Funders, were invited to provide feedback on the draft report and the author has taken account of this feedback in preparing the final report.

That said, the views expressed in the report are those of the author and should not be taken to represent the views of Relationship Aotearoa Board, the Chief Executive or the Funders.

All figures contained, referred to and otherwise relied upon in the report have been prepared by Relationships Aotearoa and are subject to any further independent review and changes in funder advice.

Contents

Executive Summary

Analysis of Relationship Aotearoa's (RA) revenue for the period 2012-2014 showed a 30% reduction in its total revenue. This related primarily to legislative changes that impacted Ministry of Justice (MOJ) contracts and revenues. Those changes came on top of:

1. RA providing increasing MSD service volumes (with no funding contribution increases) at rates below the actual costs of service delivery and reporting.
2. Earlier, attempts to negotiate funding increases failing.
3. A continued fall in philanthropic donations.
4. Difficulty in obtaining fees (user part charges) from RA clients, who are New Zealand's vulnerable and disadvantaged populations most affected by the economic down-turn and are less likely to pay.

In September 2013, RA committed to a self-funded plan for recovery and a CIR funded programme of capability development. The recovery work commenced immediately with the Board releasing reserves for this purpose.

In January 2014, to support RA's future sustainability the MSD provided a CIR grant for 12 months to contribute to specified capability building aspects of RA's proposed capability programme commencing February 2014.

While the recovery and capability work streams are funded separately there are interdependencies between capability development, recovery, and business as usual delivery, and the achievement of long-term sustainability. These need to be understood when designing and investing in transformational programmes of this nature in the Not-For-Profit (NFP) environment.

Capability and Recovery Developments

Twelve months on, the CIR funded capability-building programme deliverables planned to 31 December 2014 are complete, within agreed budget, and timelines. Despite the level of challenge and change, RA has achieved a high level of employee engagement and productivity is increasing. For the benefits of the CIR investment, in RA's capability to be realised fully, and the changes sustained; capability will need to remain a focus for RA in forward years.

The recovery target set for the year ending 30 June 2014 was a deficit of ($604k). The result achieved was a smaller deficit of ($252k). This $352k improvement was the result of one-off trust revenue realisation of $281k; combined with pro-rata annual savings of $545k (comprised of personnel $400k, Property $45k and ICT $100k). [1]

In the 2014/15-year, savings of $311k (see figure six - page 24) were forecasted. Further savings of $380k (property 150k and affiliate/contractor $230k) are planned in the 2015/16-year (see figure six).[i] In addition ICT savings are anticipated in outlying years when existing supply contracts can be terminated. This would amount in total to savings of $1.243m since commencement of RA's recovery plan in September 2013.[2]

[1] 30 June 2014 result tabled at Board, dated 25/8/14

Revenue and Service Changes

A key recovery assumption was that there would be no further reduction in forecast revenues during the programme and improved service fees would be negotiated. Unforeseen material errors in the 2014/15 budget forecast revenues and costs related to late changes to major service delivery contracts within the 2014/15 year meant that the original recovery targets set for 2014/15 could not be met. The net affect was that RA sustained a further 7.5% drop in revenue, along with unbudgeted contract implementation costs in the 2014/15-year. This is a significant setback in the second year of RAs recovery, which has impacted its viability. This difficulty with anticipating the outcome of funding changes would be unlikely to recur given the activity and outcome reporting now available due to the CIR capability programme.

With the new data and reporting systems in place, confirmation of reforecasting (incorporating further cost cutting measures) has been completed for formal Board and CE discussions with funders and RAs Board. Were this goal to be achieved, inclusive of all existing savings and further savings proposed, RA would have cut its expenditure by $4.6m since commencement of the recovery effort; matching the revenue reduction for the same period.

While this capability achieved through the CIR programme is significant, it highlights the question of aligning contract revenue to an evidence-based assessment of ongoing service costs. RA now has capability to report activity and outcomes against contracts, and thus it could support a larger scale of operations, both directly and through providing shared services to other NGOs. This situation has been recognised in research that shows that:

- NGOs frequently under-estimate their overheads, which should operate at around 25% of total costs.
- And, that capability building is essential to meet the reporting requiements of funders.

The focus brought to this issue at the outset and through the capability programme reveals that RA's overhead of 17% is too low to cover ongoing support of the requirements of funders for activity and outcome data. It also shows that the way forward includes: improved revenue against under-funded contracts; and expansion of the scale of RA operations – potentially through hosting client and performance reporting for other NGOs, and increasing RA's own contract volumes.

Please see:

Groggins, A and Harwood, D, (2009) 'The non-profit starvation cycle', Stanford Social Innovation Review.

Levy, J and Searing, E (2012) Anatomy of the non-profit starvation cycle, ARNOVA Annual Conference.

Cairns, B, Harris, M, and Young, P (2005) Building the capacity of the voluntary non-profit sector: Challenges of theory and practice, International Journal of Public Administration, v28, p 869-885.

Subject to the sustainability and success of the additional cuts planned, the potential for agreement to transitional funding in the 2014/15 budgets and achievement of a balanced year-end outturn for 2015/16 financial years, RA could commit to continued service delivery. Whether this commitment is made is a decision for the Board and key funders, preferably with input from RA membership.

Taking account of all the efforts made to date, this development serves to highlight the importance of:

- Understanding the relationship between investment in capability, sustainable revenue streams and long term sustainability
- Revenue continuity through out a period of substantive change,
- Change capacity considerations, only heightened by NFP capability considerations, and
- NFP sector sensitivity to policy changes, impacting what are too thinly spread resources

For RA to continue to trade and move into a surplus position in the 2015/16-year, no further revenue cuts can be sustained, the further cost cutting efforts will need to be successful, the focus on capability will need to continue and funder commitments to RA will be required.

Where to from here?

Provided the set back to recovery in the 2014/15 year can be resolved and sound sustainable contracting practices are established with all key funders for the 2015/16 year, RA will be in a strong position to achieve a sustainable result during the 2015/16 year.

Significant gains have been made in terms of capability development, through the CIR investment made by MSD. This work needs to continue to be embedded for the full CIR benefits to be realised; including the sharing of those benefits and learning's with funders and within the NFP sector.

It is important that the success of the recovery work to the year ending 30 June 2014 and the delivery of the ICT and Organisational Capability programme to 31 December 2014 is recognised and acknowledged. What was achieved for the periods outlined above is significant in the context of:

- RA's 60-year history, established culture and capabilities.
- The level and complexity of the combined programmes of work.
- The need to recover, deliver business as usual and build fundamental capabilities in parallel.
- The short time frames allowed.
- The successive loss of senior leaders and their institutional knowledge prior to and throughout the period of programme delivery.
- The level and capacity of resourcing available to the programme.
- The longer time frames needed for return on investment for any transformational change efforts

These achievements have been dependent on a number of key factors:

1. Strong transformative leadership:
   - Achieving engagement at all levels about what needed to happen and why.

- Achieving a shared understanding of the culture, business and client demands.
- Achieving a shared understanding of the development demands involved in achieving significant and sustainable change in culture and practices.
- The passion, patience and skill of key people brought into the organisation to assist its development and change – and of key existing internal people who stayed on and have been open to changing the way RA works.
- Road shows and other work needed to challenge the cultural inertia that impacts all transformational change efforts - (all capability building costs not funded by CIR).
- Networking and some continued pro-bono effort.
- Hard graft, courage, commitment and persistence of all involved.

2. The ability of RA and its funders to focus on overall trends and see beyond short-term setbacks.
3. The investment made in capability, including development of a new sustainable approach to doing business, and the supporting systems and practice changes.
4. The innovative, flexible and pragmatic partnership approach taken by RA programme leads, senior leaders, expert advisors and key funders.

These factors and other important learning arising from the work completed to date in relation to the funding, planning, and change management that need to be considered for successful delivery of what is a complex transformational programme, what ever the outcome of current developments for RA. These are discussed in the report.

Strong supported leadership is critical to ensure RA continues to build capability and embed practice changes designed to achieve recovery and sustainability. Over the next 12 months the success of the combined programme and RA's viability will be dependent on the quality of the partnership between the Board, the CE and major funders. This will also be true should RA close to ensure its most vulnerable clients, including Iwi are still served.

To provide sufficient context for readers the report is set out in four parts:

1. Introduction (background)
2. Description of the combined programme
3. Achievements to date
4. Key learnings

1. Introduction

Background

RA has provided services for over 60 years as an Incorporated Society with charitable status. It evolved from a voluntary organisation with locally focused centres, to a national organisation. RA's vision and the quality of the services it provides have always been well regarded. These attributes alongside RA's status as a preferred partner to government, led to an expansion of the organisation to meet contract requirements. This structure also left RA exposed when government priorities and contracting practices changed and bids for further funding failed.

Forecast Position Changes 2012-13

RA's budgeted deficit was ($181k)[3] for the 2012/13 year. RA had reserves and was taking steps to close the increasing gaps between revenues and expenses, with a focus on increasing funding levels and achieving operating cost efficiencies. Though the need for change was known and the general direction of it was communicated, RA's efforts in 2012 underestimated the:

- Ongoing impact of the revenue reductions.
- Importance of reliable data and information systems.
- Degree of cultural and business practice change required.
- Level of change needed.
- Level of investment, resources, skills, time and effort needed to deliver a sustainable result.

In late 2012, a further effort to reduce operating costs resulted in the loss of key business capability including Finance and ICT. Limited HR capability remained within existing national office roles. Recognising the need for investment in transformational change leadership the Board moved to recruit a new CE with the necessary skills in 2013. Change implementation could not be resourced within existing personnel and revenues.

RA's new CE commenced in March 2013. A revised and more realistic April forecast predicted a deficit of ($472k)[4] for the year ending 30 June 2013. Though service and financial performance data was limited, a further review initiated by the new CE identified:

- There had been deterioration in RA's financial position over the preceding two years, and that would continue if unchecked.
- Further revenue changes were forecast.
- Without intervention, the revised deficit forecast was likely to grow to between $1m-$1.2m by 30 June 2013. 5

Prior to this, the new CE, RA's Board and funders were unaware of the extent of the financial difficulties and the potential for insolvency. The CE advised the Board and funders immediately. The Board's Finance and Risk sub-committee also undertook a further review in June as year-end work commenced. This estimated that the final result could be closer to $1.26m. At that time, the CE initiated a service delivery verification exercise. This would ultimately expose service volumes delivered, but unreported to the value of approximately $400k. The CE negotiated payment for these with funders. In

[3] RA financial management report, 30 June 2013
[4] RA financial management report, 30 June 2013
[5] 2013 Working projections - RA Board (June), VS Recovery and Sustainability Report July, Reviewer and Insolvency Advisors (Aug)

September, this achieved a final end result of ($413k) for the 2012/13 year. This provided room for RA to address the underlying causes.

The CE had commissioned further analysis of the causes and options for sustained recovery. The report provided to RA's Board in July included analysis utilising the limited data available on revenue, financial and service performance history. A plan for financial turnaround based on cost cutting (ICT Supply, Facilities and Staffing) and revenue generation measures was developed. This was combined with an organisational capability development programme targeting business capability gaps (business models, systems, people and practices).

Key Contributions to the Financial Position

Revenue Base

In 2012/13 RA's total income was $10,700m[6] comprised of $7,855m in core MOJ, MSD and Department of Corrections Contracts, together with $2,845m in other income and smaller fee for service contracts. Combined core contracts with government accounted for 73% of RA's revenue for the 2012/13 year.

MSD services fees did not reflect the true cost of delivery. Fees were to be a contribution only to the costs of the services specified. A number of contracts specified delivery of smaller volumes in isolated areas with little or no compensatory fee adjustments. Consequently, RA needed to rely on philanthropic funding and client fees to fully fund MSD contracted services. The only MSD contract that provides for overhead costs is the current Canterbury Earthquake recovery counselling service.

Whilst MoJ service fees are closer to meeting service delivery costs, reductions in service volumes had reduced RA's revenue. In 2012, MOJ reduced the number of Family Court (FC) counselling sessions purchased from 6 to 3 per couple, with commensurate reductions in revenue for the 2012-13 year. Continued uncertainty about the number of sessions to be provided for under the new legislation (expected to take effect from 1 December 2013) made forecasting extremely difficult for the 2013-14 year.

RA has donor status and attracts funding from the philanthropic community in the form of grants from distributing Trusts and Lotteries. This funding is heavily contested. Between 2009/10[7] and 2013/14[8] the number and the value of the grants awarded to RA dropped from $602k to $377k per annum. This is a reduction of $225k (37%). Without investment to support fund raising activities, RA's capability to develop other sources of philanthropic funding was limited. In any case this type of funding is tagged and not provided for core-funded services.

Pursuing client fees from New Zealand's vulnerable, socio-economically disadvantaged population, was and remains problematic. Client fee payments were and are lower than required to meet short falls that cannot be met by philanthropic funding. Though funders offer only contributory funding levels to specified services, attempts to secure partial payment from clients attracts complaints from regional purchasers and referrers alike. Furthermore, Counsellors, find it difficult to negotiate the counsellor-client relationship and pursue fees. On average, outstanding client debts exceed $100k per annum.

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[6] Statement of Financial Performance for the year ended 30 June 2013
[7] Annual published accounts 2009/10
[8] Annual published accounts 2003/14

Attempts to engage key funders were unsuccessful during this period. The absence of reliable data to support the argument for additional funding may have been a contributing factor.

While RA had identified the potential to generate private revenue streams, there were three key obstacles to this:

1. RA needed to right size for delivery against existing contracts and progress partnership opportunities already in the pipeline that leveraged existing resources and relationships to build capability and achieve economies of scale and recovery, before taking on other new opportunities.
2. The private counselling market RA was targeting was incompatible with the socio-economically disadvantaged client group it currently services. Middle to high income earners pay a premium to discretely access services in up market locations that RA does not have the financial resources provide.
3. There is an increasing number of small shorter-term providers of social and counselling services competing for funding, reducing the over-all funding pool. Some of these providers, do not provide more complex/high risk integrated services and are therefore not subject to the same professional practice/quality requirements and related delivery costs as RA. Additionally some providers, including some iwi based organisations, are in a position to subsidise counselling services at lower rates through cross government funding streams.

Looked at in isolation, the service-purchasing environment described under point 3 above may offer the attraction of lower cost, locally based services from a funder perspective in the short term. A broader assessment more consistent with current international research around the purchase strategies for and costs of NFP social and health services would include capability, quality, service integration and/or scale and sustainable fee structures. (See references provided in the executive summary)

In the short-term, the current situation does not provide a level playing field for medium to larger sized NGO providers working at the most difficult end of client need. Nor does it appear to offer a very effective, efficient or sustainable outcome purchasing strategy for the medium to longer term. A number of larger NGOs are failing in the current environment. The recent government changes signalled to rationalise the investment in purchase of NFP services may go some way to redressing the balance, but only if the investment level in the services that remain is sustainable.

Existing culture and capability

RA's culture of giving to individuals, whanāu and community and agreeing to greater volumes without any compensatory funding increases over seven years, had resulted in:

- A lack of shared understanding between RA and funders about true costs of service delivery and contribution levels.
- RA and funders agreeing to under-funding of service delivery and overheads, and contracts that were costly to administer and regional variations added a layer of complication and did not attract economies of scale.
- Setting up new regional contracts and sites to facilitate delivery where there was identified need but insufficient volumes and funding to support it.
- A lack of resources to value and invest in efficient business skills and practices, and to be adequately compensated for services and skills provided.
- A practice of end of year wash-ups that did not provide clarity for either party.

- An inability to respond to environmental changes due to funding conditions, organisational culture and business capability levels.

RA had not been capturing service delivery outputs or costs accurately. This impacted clinical and service management practices and reporting, contract pricing, revenue streams and grant utilisation:

- Service costs had been accounted for as direct counselling service delivery hours (SDHs). For a fulltime employee, this equated to between 21 and 25 hours face to face with the 15 to19 remaining hours for case management, training, administration, supervision, and travel. The hours remaining are pivotal to ensure that quality services are delivered that are clinically safe for counsellors and clients. The organisation's total cost of delivery for those hours was not being accounted for. Overheads were not considered or covered under most major contracts.
- Unless contracts specified, there were no definitive boundaries for how many time clients were seen or could fail to attend appointments before discharge. General practice guidelines were relied on instead without follow-up, or efficient means of audit or consequence for being outside of organisational practice guidelines.
- Electronic records management were not considered an operational or clinical priority.
- Although RA has spent historical reserves on information systems to modernise them, the systems developed were incomplete, clunky and were no longer supported operationally, nor were systems integrated across the business.
- There was inaccurate recording of service delivery activities in the case management system against contract. It was also difficult to track counsellor utilisation against service contracts, overall staff productivity and related service delivery costs.
- The numbers of counsellor SDHs recorded in payroll and the number of closed files by volume type were reconciled manually each quarter to determine the service volumes. Invoices were produced on that basis; any hours not captured correctly in timesheets or without a matching closed file were not invoiced.

Forward revenue forecasting, budgeting and reporting relied on incomplete information. Combined with variable rate and vague RA contracting and funder advice, funding agreements, end of year wash-ups, and incomplete information to support unit deliver cost meant understanding RA true financial position was extremely challenging.

The lack of integration between client, people and financial management systems lead to duplication of effort, reduced visibility and exposed RA to risk with regard to practices, reporting and financial reconciliation. Without reliable data, RA it was difficult for RA to target savings, accurately forecast or address related business risks including productivity and performance. Justifying requests for increased funding were made difficult or impossible.

2. The Combined Recovery and Capability Programme

Programme Development

A three-year programme of recovery and capability was developed in August 2013 to:

- Achieve business recovery through savings and revenue initiatives (self-funded).
- Build organisational capability to operate sustainably in the face of ongoing changes in the service, contracting and funding environment.

To achieve recovery and be sustainable, RA needed to operate in a more commercially sustainable way. It needed to become a viable "Not for Profit Business" that reinvested any surplus into the community, rather than a charitable NGO unconcerned with costs or client payments (reliant on grants and wash-ups to survive).

RA needed to achieve a breakeven position for the financial year ending 30 June 2015/16. Based on the data available, this required an18-month savings target of $1.2m[9] (without loss of revenue) or a commensurate increase in revenues (without increased expenses) in the same period.

Following the McKinsey Greiner model of business growth and development the bulk of the savings, change and capability building needed to be completed within 12 to18 months. The balance of the programme would focus on embedding change, benefit realisation and revenue growth.

Even if RA could achieve a breakeven position, it would not be sustainable without capability investment and fees increases. For sustainability, RA has had to change dramatically and quickly. It had to develop the culture and agility necessary to respond to ongoing changes in the contracting environment. Investment in capability building was essential to drive and achieve the necessary changes in culture, governance, leadership, management systems and to inform business, service and related practice models. The Ministry of Social Development (MSD) contributed to the capability programme stream through its Capability Investment Resource (CIR) fund.

Programme Validation

An insolvency review by Price Waterhouse Coopers (PWC) funded by the MOJ, endorsed both the capability building and recovery streams of the change programme. The extent of RA's capability and capacity for change, predictable short-term reductions in productivity and the powerful impacts of cultural resistance to the change were raised as critical concerns. It was agreed that management of these risks would require investment and careful attention.

The insolvency expert advised that business recovery was never going to be linear and there would be peaks and troughs. The expert cautioned RA not to over-react to foreseeable and unsustained setbacks, emphasising the importance of sensible targets, managing cash flow and addressing underlying issues.

[9] Tabled in Board report dated 22/7/13

To assist understanding, the key elements of the change programme were described as:

- Taking Control.
- Right Sizing.
- People Leadership and Personal Ownership.

Each element contained recovery and capability components and activities.

CIR Funding - Capability Development Activities

After initial funder advice on MSD CIR grant parameters and application requirements, RAs first application in August 2013 sought an investment of $2.3m over three years, for ICT, Organisational Capability and Lease break costs. MSD offered RA $300k which RA declined to accept. After new advice from MSD, alternative applications were prepared and submitted in September and November to meet CIR requirements for the level of funding needed.

MSD had requested a more detailed ICT capability proposal and resubmission of the Organisational Capability proposal (excluding items MSD assessed as business as usual – items such as lease break costs. The final revised proposal for $1,505,020 comprised $843,524k for ICT development (supported by a more detailed breakdown) and $661,496k for organisational development and change.

CIR Capability Programme Funding and Reporting

In December 2013 MSD offered RA $1.391m comprising:

1. $588k for a 12-month capability programme within CIR fund requirements and timelines.
2. $803k for ICT to be utilised over 12 months.

In recognition of the delays, MSD agreed that these timeframes could be extended for up to 6 months (subject to progress). The CIR grant contribution to the Capability programme was released to RA in January of 2014. The revised CIR grant for the ICT capability-building component of the programme provided for:

- Integration of RA's existing ICT Systems, enabling an integrated reporting solution that would improve the quality and speed of performance data.
- Mobile capability and tools - to improve client access, counsellor delivery and service quality.
- Improving the function of the Case Management System (Penelope) to ensure the client and service delivery data was relevant, informative and easily produced to report on and improve services.

The organisational capability components of the programme included:

- Programme Management.
- Governance and leadership development.
- Development of a sustainable RA business model (and related practices).
- Organisational design, consultation and change implementation (structural, practice and cultural).
- Specified supporting employee communications and engagement survey activities.
- Advice and support in the areas of human resources, communications, facilities, risk management, contracting, and business/financial modelling.

- The development of supporting documentation, tools, polices, and related resources critical to embedding the changes required.

RA's revised proposal meant it would not be able to deliver the capability programme as originally planned. When MSD offered less than the original and revised proposals, the capability programme activities were scaled back and agreed as a set of outcome areas.

Timeframes for delivery were also shortened by CIR grant requirements. RA agreed to the revised timeframes and amount offered as the alternative meant immediate closure.

The grant level and timing meant the:

- Commencement of key capability building programme components was delayed until February 2014. Related programme activities and resources were pushed out and scaled back, with greater reliance on RA's operational budget and resources.
- Change capacity issues were likely to be increased
- The ICT system improvement planned to improve client services, resolve service reporting issues (that would also reduce administration demands) was significantly delayed

While the recovery and capability programmes are funded separately, there are interdependencies between the two work streams. Each programme reports progress separately to the RA Board, CE and to MSD.

3. CIR Capability Achievements to 31 December 2014

Information Communications Technology

The three ICT Capability components of the programme: RA ICT Systems Integration, Mobility and Improved Case Management System function are now complete. They have been well received by business users. ICT training and support to ensure successful rollout and uptake is continuing within the remaining budget.

The CIR funding has enhanced RA's capability and capacity across information systems. The result is RA is now able to collect and use client data to report performance and improve practice quality and client related outcomes. Accessing better data via an integrated reporting solution will benefit clients, RA and funders. In addition, there is potential to generate revenue from other providers wanting to share in the benefits of RA's enhanced client management system. Further investment in ICT skills will be necessary before the new systems and practices can become business as usual. To ensure the value of the investment is realised and sustained, virtual ICT expertise will need to be in place for at least 6-12 months to embed internal capability.

In recent years funder reporting, administrative and related systems requirement costs have increased, as a part of changed purchasing and monitoring strategies. The administration, system and related transaction costs are generally prohibitive for small NFPs. As mentioned, RA is looking at ways to extend the updated systems to other NFP providers. Up until recently, the Penelope Systems New Zealand agent had not supported an earlier agreement with the parent company for RA to sub-host small NFPs on its systems. As the New Zealand agent company is now closed, RA is progressing discussion with the parent company regarding hosting smaller NFPs.

The ability for shared or virtual support services that provide a common platform and back office resources for NFP sector at reduced cost will be important for sustainability. Though CIR funding enabled investment in system capability for larger NGOs, it also incentivised organisational as opposed to sector wide shared services opportunities. Supporting the development of shared platforms could reduce costs, improve and streamline reporting, reducing contract transaction costs across the NGO sector and for funders. It would also make better use of government innovation grants. A whole of government approach is required in this area.

Organisational Capability

Programme management and administration has been delivered. Only two steering group status reports remain for delivery in 2015. A new business and service delivery model which has a clinically sound, client-focused, and outcomes directed, also includes a risk sharing component has been developed. This type of development/approach is key to NFP sector sustainability. MOJ has adapted this model for their purchase of Domestic Violence Services implemented in October 2014. This approach is also to be utilised for contracting with MSD for packages of Family, Couple and Individual Counselling Services. This approach is shown in Figures 1 and 2 below. Implementation of these new service models is expected to produce better outcome measures for funders and clients. It is also critical to RA's sustainability in the medium to longer term.

Figure 1

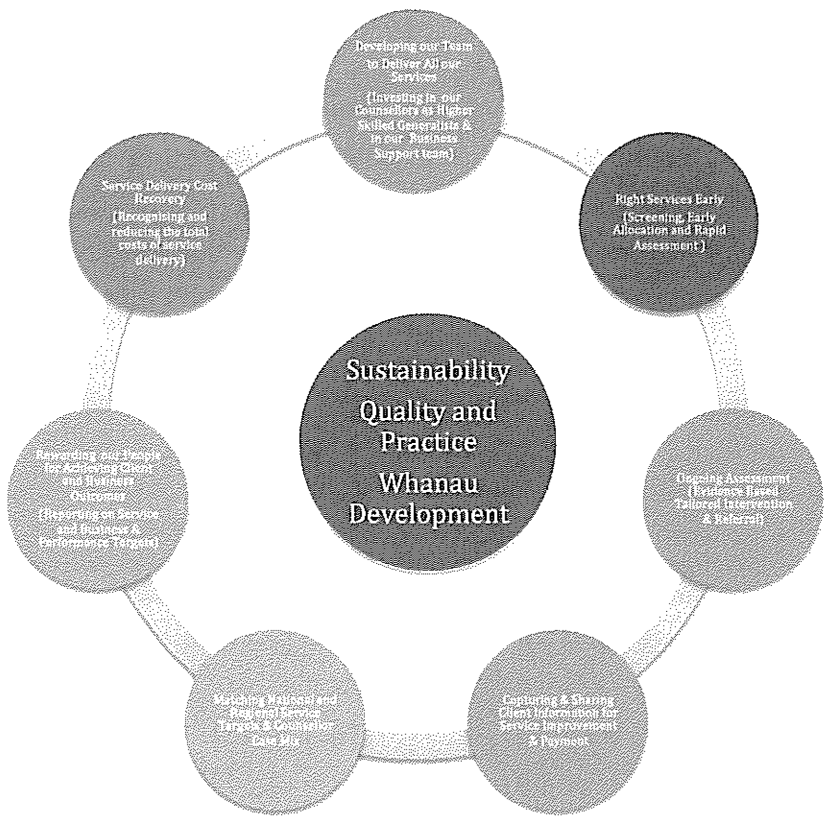
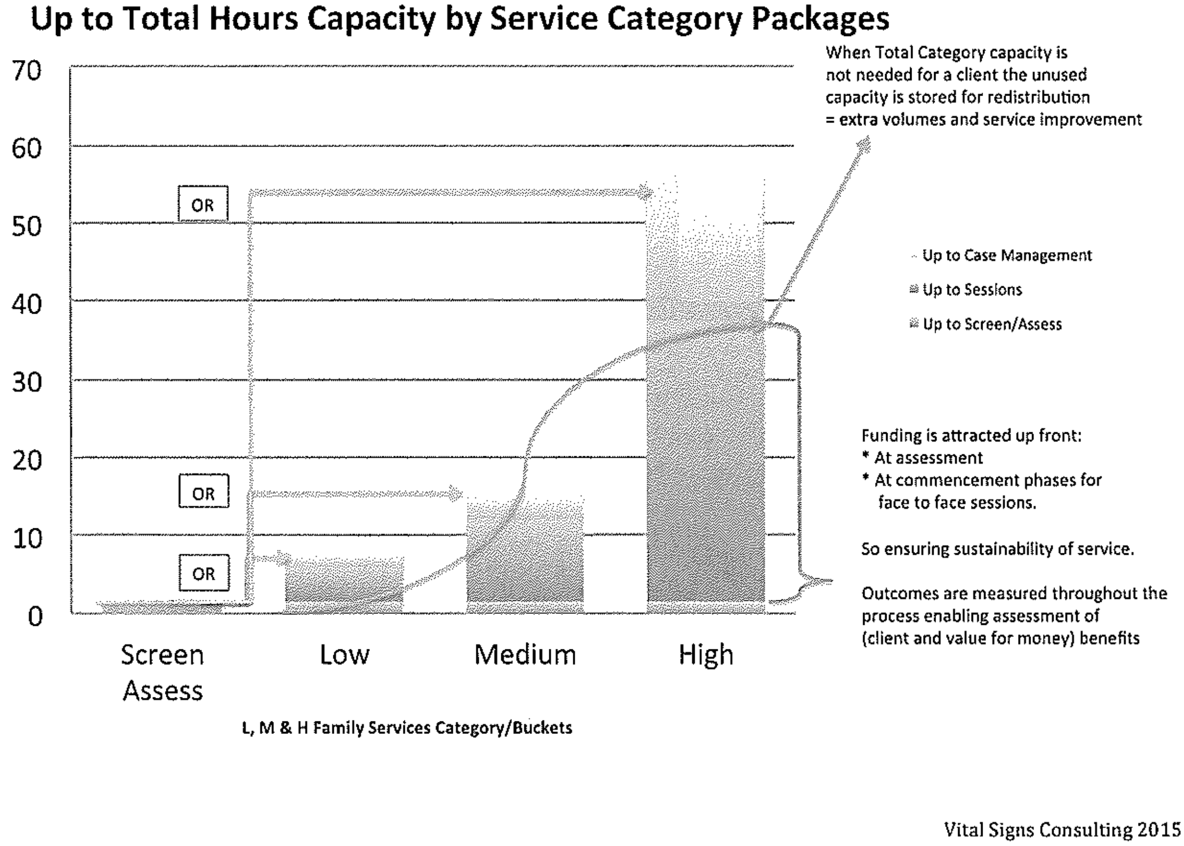


Figure 2

The Client Category Funding Packages Approach



Whakapakari Whānau Service Developments

The wider capability building work undertaken on service partnership, models and related practices has also supported the ongoing development of the Whakapakari Whanau approach increasing RAs impact of Maori families and their children.

'He Mana Whanau, He Oranga'
He mana tangata, He mana whanau
He mana whanau, He mana hapu
He mana hapu – he oranga mo te iwi e....

In 2010 Whānau Ora was officially launched to the nation of Aotearoa New Zealand. In response to this initiative Relationships Aotearoa launched the development of the Whakapakari Whānau Strategy; a mainstream approach to working with those Whānau Māori who came through the RA doors.

This strategy provided for a Māori delivery service that is clinically and culturally designed to achieve the growth of consistent good health for whānau Māori. Consistent with the philosophy of Whānau Ora, a mātauranga māori (maori knowledge) framework underpins this delivery model ensuring that the four essential elements of well-being; wairua (spirit), tinana (body), hinengaro (mind) and whanau are being addressed within the therapeutic healing process. Whakapakari Whanau is:

- Delivered by a team of experienced Māori counsellors, therapists and practitioners, who see themselves as Kaitautoko (whanau supporters) to whānau in their pursuit of good health and wellbeing.
- A strengths based initiative that supports whānau to focus on their collective strengths in order to support them through the challenges of their day to day lives.

Currently Relationships Aotearoa has 12 Maori counsellors/practitioners working with whānau Māori. The data to date identifies that the numbers of whānau work RA delivers under Whakapakari Whanau is steadily increasing and therefore meeting the needs of the target group. In line with the focus on capability building and partnership development, these services have grown and now account for 25-35% of RA existing clients base.

Organisational Design and Change

All associated organisation design, consultation, change management and related HR advice has been delivered to realign organisational capability to the new models. The key governance, leadership development and engagement elements have been delivered.

To allow for service delivery demands, the Christmas shutdown, and now management of RA changing contracting and performance position identified in February, completion of the few remaining capability development elements is deferred for completion by June 30 2015. Completion of the work on the new agreements (supply, lease, partnership and funder) is planned by 30 June, for the new contract year commencing 1 July 2015. This will also be subject to the outcome of the current discussions about RAs future.

Through this investment in organisational capability and development to date, RA and its leaders have a better understanding of:

- The wider service purchasing environment.
- RA (NFP) costs, services, practices and culture.
- The funding needed and how RA needs to operate to be sustainable and effective.

RA leaders have and continue to integrate the new practices required and are making use of the information now available to it. RA leaders and staff are now informed and engaged on the rational for the changes made (organisational, practice and culture) and need for continuous improvement. The new service opening hours, service delivery models, practice policies, performance targets and employment arrangements for staff are designed to align with client, contract and business needs.

Staff engagement has remained high, despite the level of change, which included the disestablishment of approximately 200 counsellors and contractors in the process and fundamental changes to staff practice. RA achieved a 64% overall engagement score, with 23% neutral and only 13% not engaged or disengaged. High levels of engagement will continue to be key to sustainable change at all levels.

Management skills have grown and continue to improve. These are supported by the performance information now available through improvements to organisational capability. RA now has the data and tools to describe and quantify its services, set and measure the expectations of staff and to monitor performance. Further work to embed these tools, validate the data and refine reports is underway, and will need to continue.

Targeted investment in capability development is still required over the next twelve months to ensure:

1. Existing engagement and service levels are sustained.
2. The culture changes to leadership, management and organisational practice are embedded and ongoing.
3. Managers have sufficient skills to manage financial, contractual and staff performance effectively.
4. The use of the integrated platform and service mobility is embedded.

4. Recovery Achievements

Recovery Targets 2013/14

Most organisations that experienced a nearly 30% ($3.65m) reduction of revenue over three years could not survive. RA had to find savings and/or revenue increases over three years (from commencement of the recovery programme) to recover and be profitable. Capability, including information systems and data had to be built to improve management information, knowledge and practices, and to inform discussion about the real costs of service and contract fees going forward.

In the meantime, to stay open for the next 12 months RA had to make changes quickly to reduce staff, facility and ICT supplier costs, without jeopardising service delivery. The recovery targets set for the remainder of the 2013/14-year were necessarily aggressive. The plan was to achieve a budget deficit of $604k by 30 June 2014[10]. The balance of savings needed was to be achieved in subsequent years. These included further staff, property, other supply savings, a reduction of "did not attends" DNA and other productivity gains.

Savings Targets

The savings targets included (staff $650k, property $200k, plus ICT and other suppliers costs (subject to the ability to renegotiate terms and/or exit existing agreements). Subject to system improvement, staff savings were to be delivered in three distinct phases commencing October 2013:

- Management, (December 2013).
- Administration (January 2014).
- Counsellors (March 2014).

In order to affect, a well-designed and sustainable programme of organisational and ICT development and change, capability funding was sought through the CIR Fund. MSD made an "in principle" commitment to this in August 2013. Funding was to be released in September, enabling the commencement of ICT capability work. Funding and programme priorities were finally agreed in December 2013, with funding released in January 2014.

Revenue Growth

The immediate priority for the organisation was cost saving. Achievement of this target was the main focus for management in the short-term. Revenue generating opportunities were also explored.

[10] 30 June 2014 financial report tabled at Board meeting, 25/8/14

Growth of strategic risk sharing partnerships and revenues would also be required. Though these potential benefits would not be realised in the 2014/15-year, partnerships with Fairway, Rape Crisis and primary health organisations were developed. Engagement with funders on the matter of service costs and sustainable contract fees also commenced. The benefits identified would not be realised in the current financial year.

Recovery Results 2013/14

RA came in ahead of plan with a final audited year-end result to 30 June 2014 with a deficit of ($252k) versus the ($604k) budgeted. This result was achieved through one-off trust revenue realisation of $281k, combined with annual savings of $545k (comprised of personnel $400k, Property $45k and ICT $100k), prorated for the 2012/13 year.[11] One-off unfunded change costs of $200k[12] were attracted 2013/14. Importantly, these results do not include further projected ICT savings or anticipated lease cost reductions that could not be achieved in the first year of the programme due to contract exit costs. Further savings of $380k (property 150k and affiliate/contractor $230k) are expected in the 2015/16-year.[ii] Further ICT savings are anticipated in outlying years when existing supply contracts can be terminated.

Only a portion of the phase two (administration) and phase three (service delivery) savings planned could be realised in the 2012/13 year. This was because administration savings relied on ICT improvements being implemented earlier and phase three changes were implemented late in the financial year between 18 April and 30 June 2014. This was further exacerbated by the requirement to maintain Counselling staff to meet contractual obligations due to changes in the Family Court.

To become responsive to client need, but contain the unplanned, additional and increasing costs of hourly rate frontline counselling staff and use of higher cost hourly rate contractors, new flexible hours fixed rate salaried positions were established. In the process 10 contractors moved to salaried position at half the rate they had been attracting, an estimated 50% saving of these costs. Those savings, the stopping payment of unplanned additional hours to hourly rate employees and the reduction of employee overheads by moving to minimum .6 FTE have not been included in the savings table shown in figure 6 below.

New role descriptions also required all counsellors to work across all disciplines. Agreements reached enabled RA opening hours to be extended at no increase in staff costs whilst improving client access to service. To achieve buy-in to these changes, one-off adjustments were made, to reduce the overall annual expenditure on Counselling staff.

Forecasts for 2014/15

Between March and June 2014, the new service and staffing model developed as part of the capability programme was utilised in the production of budget forecasts for the 2014/15-year.

At that time, funder advice on RA's contracts for 2014/15 were signalled but not confirmed and the integrated ICT systems did not come online with new service data till November 2014. RA Service Development Manager and the then Chief Financial Officer worked together to:

[11] 30 June 2014 financial report tabled at Board, 25/8/14
[12] Board report 31/7/14, CE report, p2

1. Estimate revenues and volumes based on 2013/14 figures, adjusted by the volumes/revenue first signalled by MOJ for Parenting Through Separation (PTS), and Family Dispute Resolution (FDR) services.
2. Apply the new service and staffing model to all the volumes delivered in 2014/15.
3. Assume no other revenue loss (in line with assumptions and advice at that time).
4. Continue cost containment as achieved for 2013/14 year.
5. Include budgeted one-off recovery cost of $200k.[13]

With ongoing change, these personnel left, and the forecast revenue and expenditure budget was subsequently picked up by others and reviewed. At that time the CE and new CFO identified that, in the context of funder uncertainty, the outgoing CFO had excluded some cost and included revenue for contracts expected to expire. This was advised to the Board and corrections were made to align with planned forecast revenues and costs confirmed with funders at that time. The original ($100k) deficit was reforecast at ($873k) deficit.

Recovery Targets 2014/15

Based on the former CFO budget and armed with the 2013/14 final results (assuming progress on remaining savings and revenue generation initiatives), the RA Board had set a recovery target for the year ending 30 June 2015 of a ($100k) deficit. This target would have been achievable, except for:

- Material errors in the original budget,
- Unplanned and budgeted costs associated with implementation of MoJ new domestic violence services due to legislative changes that went live 1 October 2014), and
- Further unplanned reductions in revenue related to MoJ purchasing changes equating to $432k (24% reduction) within 2014/15 year. [14]

These changes impacted planned revenues and attracted unfunded one-off implementation costs, along-side ongoing recovery costs in the 2014/15-year. It was difficult for RA to properly evaluate its declining service performance and financial position till the first financial quarter 2015 because of the:

1. Late contracting of the new MoJ service changes in within the 2014/15 year (1 October 2014, due to legislative changes and related timelines),
2. Go live timing of the new information system in late November 2014,
3. Service volume lag impacts of the late MoJ services changes, and
4. RA and referrer Xmas close down period coming immediately on the back of these service changes.

These factors combined made it difficult to know, whether the data was reliable and the apparent down turn volumes and revenue provided a reliable trend for the purposes of forecasting RAs position. A longer period of "business as usual" was needed. That said, where volumes appeared lower an immediate focus was placed on driving these up and clearing any referral and reporting blockages identified.

When this report was prepared in draft in late February, a deficit position of ($873k) - (inclusive of $450k in one off costs plus immediate savings measures) was the revised year-end forecast. This relied on the year to date results, as at 31 December 2014.

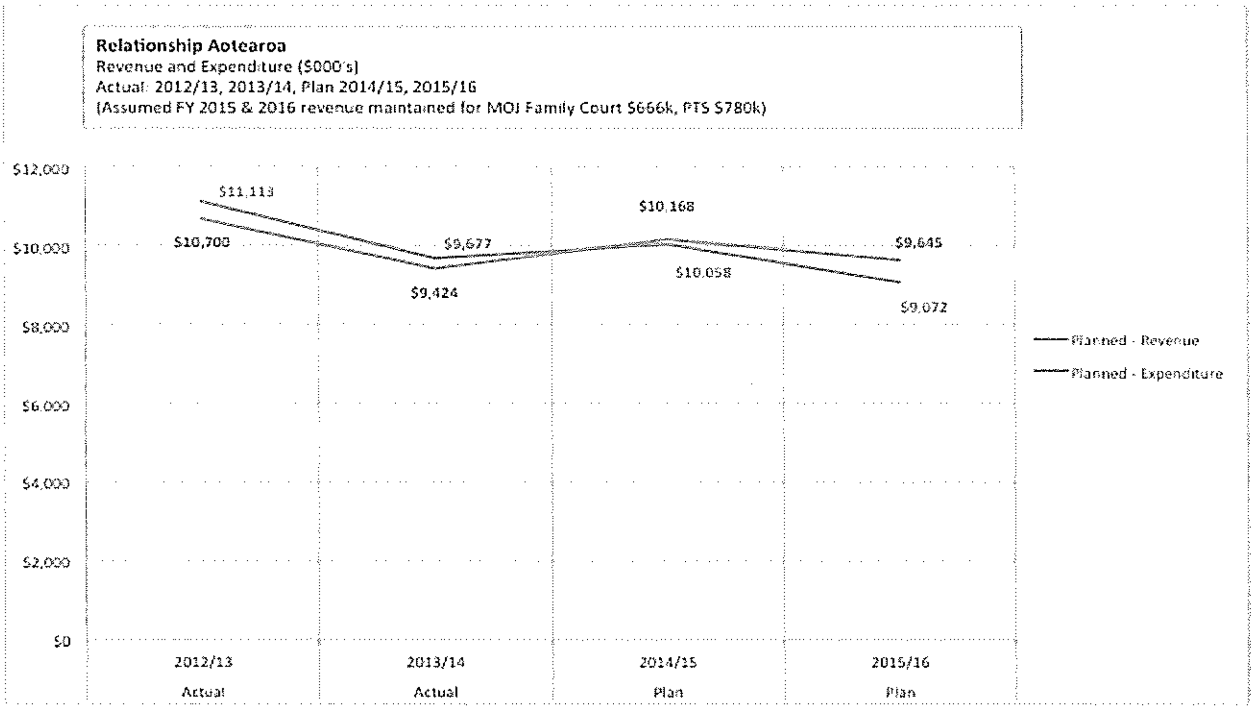
[13] Board report 31/7/14, CE report, p2
[14] Work Paper, Titled RA and Funder Bullet Point Report Feb 2015

The position, though difficult, was considered recoverable with support from RA's major funding partners for the 2014/15 and 2015/16 years, but the view was that:

1. The revenue gap needed to be closed for the 2014/15 year in agreement with major funders, including
   - Maintaining the same MSD revenue, but at lower volumes for 2015/16 year (presently under negotiation), and
   - Securing increased MSD EQC revenues of $900k (as confirmed on 26 Feb 2015).
2. MoJ would need to make a decision favourable to RA in relation to their Parenting Through Separation RFP released 16 March 2015 and at a run rate higher than the 38% ($450k) currently forecasted for 2015-16.

Taking account of the above information, the two graphs below illustrated the ability to achieve a positive surplus (FY 2014-15 and FY 2015-16) if the above revenue gap was closed, see figure three, compared to deficits (FY 2015-15 and FY 2015-16) where lower revenue has been forecasted, see figure four.

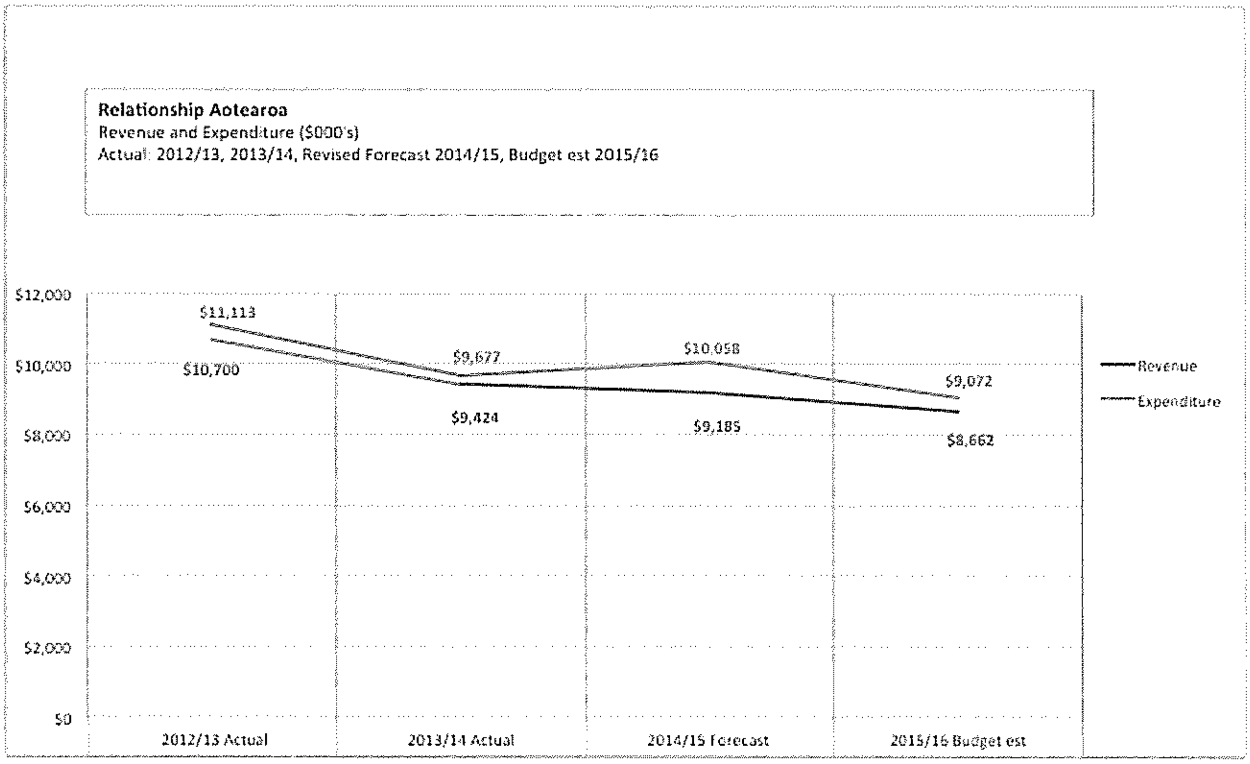
Figure three



NB: This graph shows RA position had planned revenue and expenses been maintained for 2014/15 year[15]. In particular assumed FY2015 & FY 2016 revenues maintained for both MOJ Family Court $666k and Parenting through Separation $780k. Cost savings for 2014/15 have been included as follows. Counsellor vacancies are on hold, reduced finance contractor costs and national office project roles are on hold. Plan 2015-16 includes lower counsellor costs being the flow on from lower contracted MSD volumes plus affiliates & contractor cost savings $230k and reduced property costs of $150k.

15 Briefing Paper, Titled RA and Funder Bullet Point Report Feb 2015

Figure four



NB: This graph shows RA revised Forecast 2014-15 and Budget estimate 2015-16. In particular includes implementation of final quarter savings for 2014/15, and after confirmed EQC revenues 2015/16 of $900k, lowered 2015-16 MSD volumes resulting in lower counsellor costs. PTS revenue for 2014/15 and 15/16 has been recognised at $450k (38% of the funding pool) consistent with actual trends.[16] Cost savings in Forecast 2014-15 includes counsellor vacancies put on hold, reduced finance contractor costs and national office project role on hold. Budget estimate 2015-16 includes lower counsellor costs being the flow on from lower contracted MSD volumes plus affiliates & contractor cost savings $230k and reduced property costs of $150k.

PWC Review, Subsequent Revisions and Assumptions

Price Waterhouse Coopers (PWC) reviewed the forecast figures as part of RA Boards recent assurance exercise. The forecast figures above had relied on year to date results as at December 2014 and RA's underlying revenue and expenditure assumptions that also took account of RAs typical quarterly performance pattern.

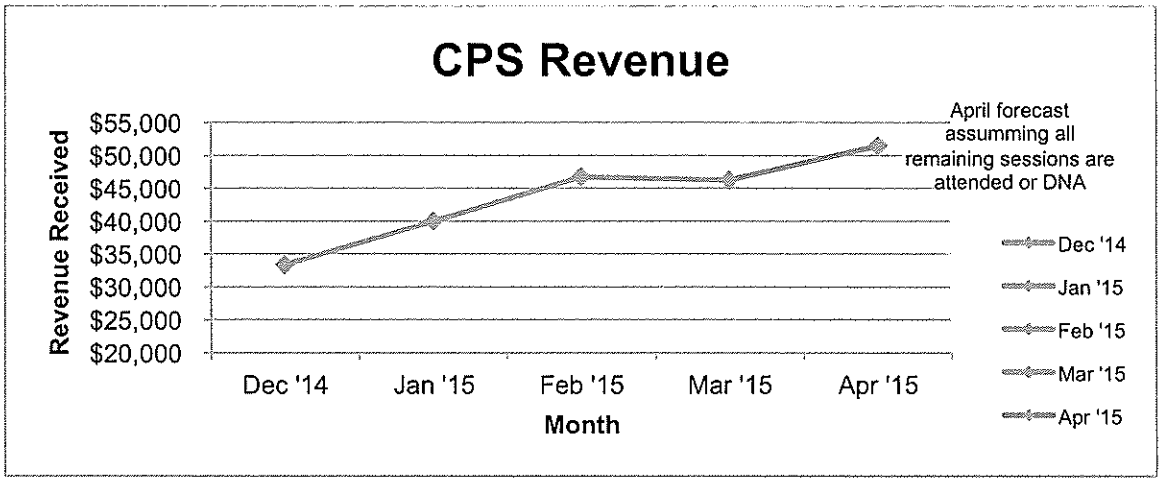
The writer understands PWC then worked with RA to project an outturn for the 2014/15 year based on February year to date result. This indicated a $400k downturn in Corrections, Nurturing the Future and PTS revenues. A further $151k of additional spend was projected. No new lease arrangements and related (planned) savings were included of $8k for the remainder 2014/15 year, as the Board had determined not to sign these off, due to RAs declining trading position. This resulted in an outturn result closer to $1.5m for 2014/15 year.

The underlying assumptions combined, provide for a worst-case scenario with regard to RAs revenue and cost containment. Though a worst case forecast position is a sensible approach, it does runs the risk of over stating the deficit position, reducing confidence in RA's ability to resolve the current difficulties and so the options for discussion.

[16] Briefing Paper Report Feb 2015

The time now elapsed, as expected the new CIR funded reporting capacity and integrated ICT systems now provide for better capture and interrogation of the service delivery data. In line with this, the month end results to March 31 2015 show improvement in 2014/15-year position, assuming the current trend is sustained for increasing Ministry of Justice (Parenting Through Separation) and Community Probation volumes that were not visible in the 28 February result.

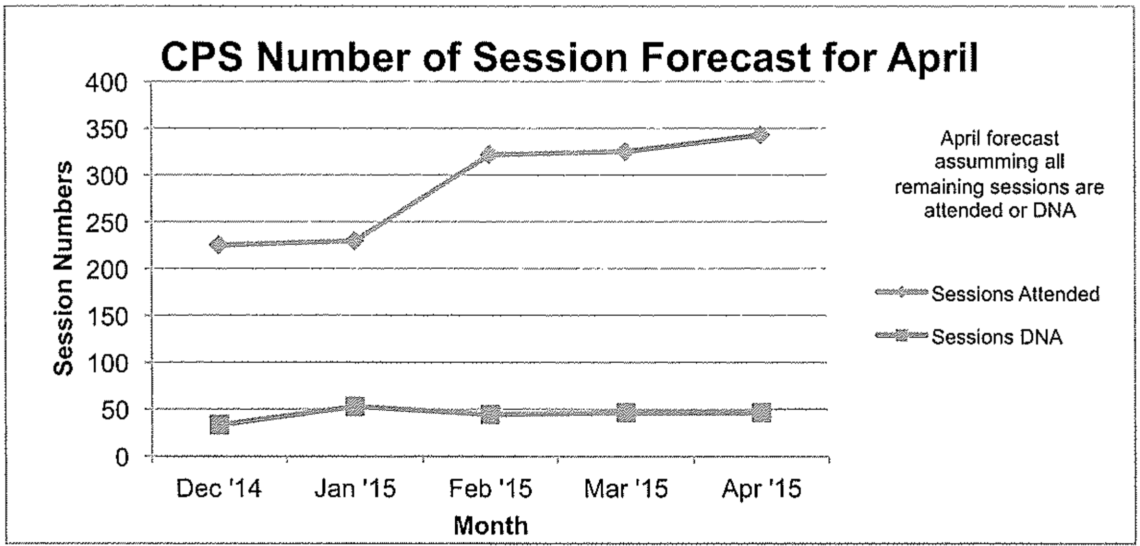
Figure five



NB:

- Probation April revenue is calculated on the rate of $132.25 not all probation is charged at same rate.
- The other hourly rates (dependant on area of service delivery) are $126 and $143 respectively. 1

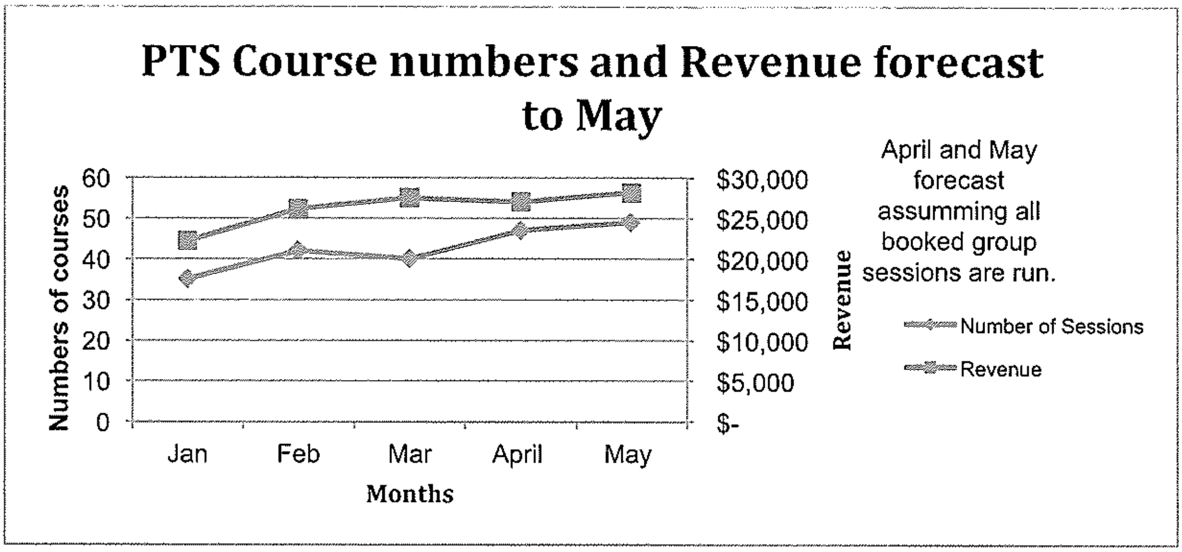
Figure 5.1



NB:

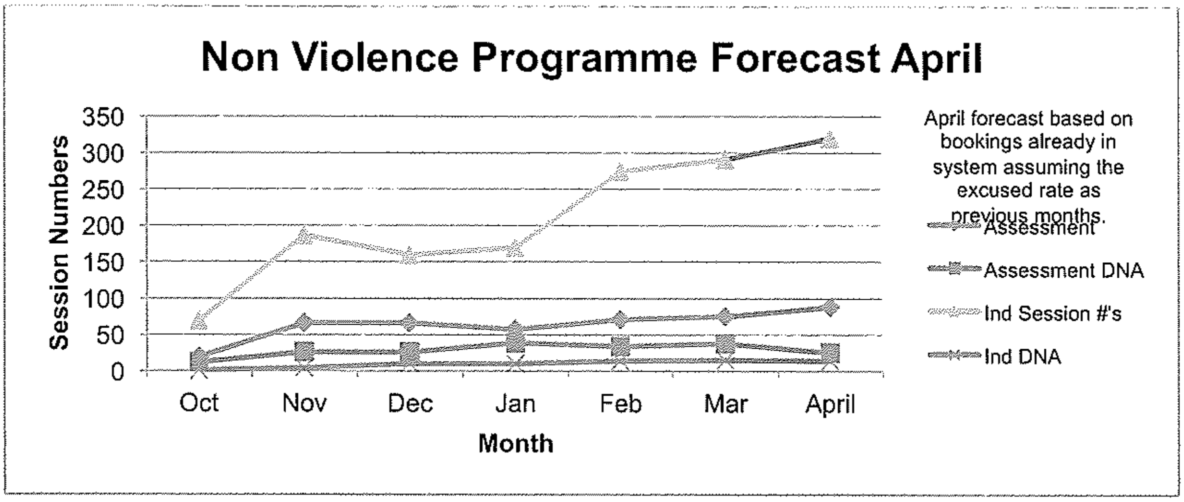
- 55 probation clients that have been referred and are scheduled to start their programmes in the months of April and May.

Figure 5.2



NB: Revenue forecast for April and May is calculated on a base rate of $500 (GST Excl) for 3-5 people. An additional $88 per course is received per person 6 and above.

Figure 5.3



The increase in service delivery volumes and related revenues shown in figure 5- 5.3 above are consistent with a lag associated with the Xmas close down period and the building the volumes and associated revenues for new MoJ services. There are positive revenue developments including:

- Nurturing Future - RA will now be able to retain $40k funding
- Corrections - Referrals are increasing, the result of increased contact and better relationship with Community Probation offices
- PTS Sessions – a significant number of sessions have now been booked for March, April (as confirmed to Penelope),
- The contract negotiations with MSD with respect to positive changes in revenue and client numbers under negotiation,
- The continued reduction in RAs operational expenses, and

- The Fair Way system blockage to reporting and subsequent invoicing work completed, has now been cleared in partnership with Fairway. As a result a more streamlined system for referrals is in place the work completed is now showing.

Where to from here?

At the time of completing this report the writer is advised that the RA Board requested that management and PWC have work together to prepare a revised break-even budget for the 2015/16 year that is being reviewed by RAs Board: It assumes:

- MSD decrease volumes from 8,400 to 5,000 client volumes for same revenue
- MoJ DV services reaches $1.3m signalled,
- EQC is constant at $900k
- PTS is secured at no less than $600k,
- Forecast increased CP funding to $653 for FY16, plus Southern CPS contract increase of $50k, and
- Further cost cutting measures

If successful, RA would be in position to pursue a balanced budget in the 2015/16, potentially producing a small surplus. This position depends on funder commitment in the 2014/15 year and excludes new opportunities the CE has identified to achieve new further revenue generating joint venture partnership or merger that the CE is currently in discussion about. However, in line with the research on NFP services overheads, capability and sustainability the further reduction in overheads and capability make long run sustainability of this approach a matter for discussion.

Cost Reduction Efforts

In the face of a 30% ($3.65m) reduction in revenues between 2011/12 and 2013/14 years, RA will have stripped out significant costs to the tune of $1.243m since commencement of the recovery programme in September 2013. Ongoing business as usual service delivery costs have continued to be reduced. This is a significant achievement by any standard.

Figure 6

Savings achieved, forecasted and planned, as at 27 February 2015[17]

	2012/13	2013/14	2014/15	2015/16
Cost Savings ($00s):	**$272**	**$660**	**$311**	**$480**
Staff - Counsellors		313		100
Staff - Management	272			
Staff - Administration		201		
Staff - Contractors			40	
Affiliates & contractors				230
Call Centers			14	
ICT & Telecommunications		100	42	
Property		46	58	150
Other			157	
	$272	$660	$311	$480

With the further 7.5% ($0.714m) drop in revenue in the 2014/15 year, the potential for further savings has been revisited and revenue issues now need to be resolved urgently

[17] Briefing Paper Report Feb 2015

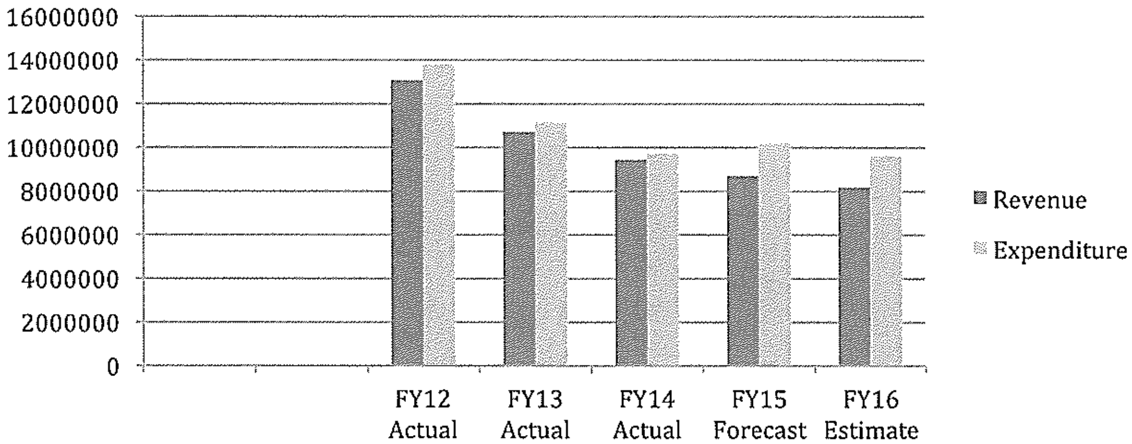
for RA to continue to trade. The medium risk budget developed involves achieving not only the planned savings of $480k, but also further saving of $400k in the 2015/16 year. Were this goal to be achieved inclusive of all existing savings and further savings proposed; RA would have cut its expenditure by $4.6m in total since commencing the recovery programme - matching the revenue reduction for the same period.

RA has worked hard to align resources with the minimum required for clinically sound service delivery, reduced the cost of those resources (counsellor staff, affiliates and contractors) and is also improving its productivity. At this stage staff productivity has reached between 90-110%. Care will need to be taken to ensure the volumes delivered, the work loading and quality are in line within professional practice standard requirements and funding levels. The level of cost cutting and continued revenue drops, before RA can stabilise its position makes achieving complete recovery, a quality performance and then sustainability an even greater challenge.

Revenue Gap Closure

There remains a fundamental gap between the funding offered and the reduced actual costs of RA services delivery for MSD contracts. RAs fees have remained the same whilst volumes requirements and delivery have increased with no adjustment for CPI applying in that time.

Relationships Aotearoa's Revenue and Expenditure 2012 to 2016



Core service BAU operating costs are now around ($140 per hour) for core services on average, inclusive of overheads. Actual costs increase up to $180 per hour to meet specified remote rural service delivery. MSD funding equates to $93 per hour for face-to-face delivery only.

Continued effort to achieve further savings can now only offer minor benefits and expose RA, it clients and its funder to risk. A "cost out" exercise alone cannot solve what are fundamental short falls in core MSD service revenues relative to the actual costs of delivery combined with the limited capacity to attract philanthropic or client funding. A more sophisticated research based approach to what is needed to resolve the gap is needed.

This will also be an issue for any alternative NFP service providers. In line with costs, the core services RA provides for MoJ attract fees range from $110 to $165 per hour for all aspects of Domestic Violence services. This includes a contribution toward administration overheads.

RA's major funders are aware of the lack of fee increase and the fundamental revenue gap. Improved information about RA's actual costs and capability is now available due to MSDs investment in RA capability. The value of the new integrated client management ICT systems/reporting and service model proposed (in terms of value for money and improved client outcomes) is recognised by those familiar with contracting and service delivery in the social, heath and NFP sectors.

A strong funder partnership has been developed (this includes funding RA in advance) and needs to continue to realise the full benefit of funder's capability investment and RAs efforts to date. However, fair fees increases and more sustainable contracts presently under negotiation are required if RA is to continue to serve some of New Zealand's most vulnerable populations, in particular the Whānau, families and young people it services.

In the event that the revenue gap cannot be closed with RA continuing to trade out, alternative arrangements will need to be made for the clients RA services. In this event, transition arrangements will need to be put in place for clients and the staff who currently provide these services.

Any transition process, merger, closure arrangements will also attract the cultural and sustainability challenges and it will be important that the wider learning in RA combined work programme, in particular the impact of culture at all levels, the time required for transformational change/ROI and the NFP sector capability and sustainability considerations are taken account of. Consistent with the research literature on change, merger and acquisition and NFP sector sustainability, this will be essential to ensure success, whatever the decision on RAs future as an organisation.

5. Lessons Worth Learning

Key Considerations - Planning & Funding

Complexity, scale and capacity

The combined recovery and capability programme is complex because it required transformation at every level of an organisation with significant capability development needs and capacity issues, whilst continuing business as usual and making savings. This challenge is highlighted in the research on NFP capability and funding and more generally within the literature on transformative change.

The key challenges associated with the design and implementation of widespread transformational organisational and ICT change are bottom-line funding, culture, capability, and capacity across all levels of the organisation. The success of the programme has depended on external funders, governance, leadership, teamwork, and changes in backroom and front line delivery. These combined interdependencies immediately create resource and cultural change challenges that needed to be actively managed and take investment and time.

Information quality

Reliable organisational data was a key issue from the outset and capability in this area was poor in terms of systems, finance and contract administration. This presented a problem to the RA Board, incoming CE and for the purposes of organisational performance and recovery programme forecasting and reporting.

In the original *Achieving Recovery Relationships Aotearoa* paper (reviewed by representatives from MSD/MoJ on the CIR steering group), it was predicted that enhanced systems and more data would not be fully tested and implemented until the beginning of 2015. RA is in the process of actively refining and validating the new data now available. In the absence of these improvements, an agile programme approach had to be taken at commencement of the programme on the basis of the information available then.

It would have been preferable to have reliable information earlier, but at that time, deferring recovery work to progress the ICT capability development, without agreement to stopgap funding would have lead to RA's closure. Sorting RA's information systems, data quality and reporting practices were key components of the combined programme. This meant accepting that a more reliable information base would be created progressively, for the purposes of:

- Managing revenues and related services.
- Business delivery and performance.
- Monitoring recovery, and
- Combined change programme reporting.

During the programme (in the absence of the ICT improvement now delivered) the foreseeable changes of personnel and data quality (as manual practices were unpacked and more internal and external information became more available and could then be more thoroughly integrated) continued to create a level of uncertainty for RA's Board, the new CE, organisational leaders and staff, and the recovery and capability programme.

Whilst awaiting for and bringing online the new systems and practices, RA has had to interrogate largely manual data. This has been resource intensive and challenging for the Finance team, whilst it is also working to change established poor practices alongside dealing with ongoing changes in revenue and personnel that has affected forecasting in the second year of recovery.

Getting Penelope changes made, getting managers on Board with its importance and training staff on its use, as part of capability building has been critical to creating visibility and resolving the data, performance and reporting issues and will continue to be important for RA, its Board and funders.

Resourcing and Tailoring Programme Management Practices

Where an organisation is poorly resourced, delivering business as usual, working on recovery and trying to build capability, it is critical that a complete dedicated programme team can be established and resourced outside of business as usual, to ensure delivery quality and manage risks effectively.

Traditional programme management frameworks, administration and reporting practices were commenced at the outset. These practices were to some extent foreign to a number of internal programme leads, capacity was limited and they had business as usual to deal with as well as accepting change. A lot of time was spent initially on working with programme leads to try to operationalize the programme frameworks across the various combined work streams and develop practices. With no additional funding available, work that internal leads hadn't progressed due to other demands and/or support needs were then picked up by the dedicated programme people on top of their existing workloads to ensure successful outcome placed the programme at risk.

It soon became clear that to meet the programme targets for all streams and stay co-ordinated, a modified approach had to be taken. The inter dependencies were agreed so these were a focus for all programme streams; combined programme meetings/reporting were then achieved mostly within the Senior Leadership Team weekly meetings - reducing overall time demands for on the team in separate meetings. Reporting co-ordination was then otherwise maintained, with separate stream reports being reviewed and integrated into a combined report and CIR only report to the RA Board and CIR steering group respectively. CIR Steering Group meetings continued throughout the programme with external ICT and Organisational Capability leads attending and presenting on the report.

Resourcing programmes of this nature

At the outset it is easy to:

- Underestimate the depth of the culture, business, service and practice changes issues and the work required to fix them.
- Overestimate capability and resources the organisation concerned can commit to fixing them.

This is especially so where there are multiple parties involved (some of whom are external funders) and the information available on the organisation performance and capability is difficult to access and/or poor.

The original Recovery Sustainability Programme identified the issues and areas for RA to focus on. These were and remain surprisingly accurate given the poor quality of data available to the CE and Programme Director. Importantly, for the experienced observer the visible flags pointed to the significant capability and performance gaps at all levels. These go hand in hand with poor business performance.

Achieving sustainable change

Closing these gaps and achieving sustainable change is resource intensive. It means delivering a set of outputs while achieving engagement and changing culture. Change management research consistently shows this takes time and is hard to quantify other than in the final result. The failure to recognise and address this aspect of change is cited as the reason for the failure of up to 70% of organisational change, merger or acquisitions. This difficulty is increased in the NFP sector where there is often a history of chronic underfunding impacting foundational organisational capability and culture.

Taking an outcomes approach

Reporting of CIR programme activities against the outcomes purchased ensured activities were aligned, but could be timed, tailored and delivered in a way that worked across the overall programme of work within funding constraints.

Taking a joined up approach

MOJ and MSD are informed of RA's recovery programme and targets. They separately reviewed the combined recovery and sustainability programme at the outset. Both parties were aware of RAs contract mix and its sensitivity to changes in volume and prices; and the work underway to change this situation. MSD funds the capability stream that was derived from the combined programme and both funders sit on the capability and sustainability programmes steering group.

Although RA's senior funders understand that the organisation is involved in a major recovery and capability development programme, this has not been taken account of by operational and regionally based contract managers in recent MOJ contract changes. Likewise, MSD regions have continued to pursue unsustainable contracting practices and prices with unachievable delivery expectations. However, in late 2014 after completion of major funder structural changes more senior nationally focused contracting staff (with a greater understanding of RAs change programme) became involved more directly. This has helped support a more joined up approach and assisted to the extent possible at this point in the journey.

Realistic timeframes and funding

Facing closure forced RA to undertake a challenging change and capability programme. This would not normally have been attempted within the timeframes, funding and resource envelope available. For reasons of necessity the programme of work was condensed from 18 – 12 months. RA's initial CIR application to MSD in August 2013 took account of the programmes inter-dependencies, complexity and level of cultural change required. These components were less tangible and difficult to describe, quantify and measure, especially at the beginning. As initially proposed, more time and targeted investment is needed to achieve a sustainable outcome and to properly evaluate the programme's impact.

Inter-dependencies and reporting

As previously stated, separate reports were provided to report on recovery and capability. The tracking of programme deliverables and recovery progress (value of saving and revenues initiatives) shown in a combined report would have been simpler, more coherent and less work. For its readers, the separate reporting appears to have left gaps with regard to the combined programmes' complexity, targets and interdependencies. Research highlights the need for an integrated view of investment in capability needs, efficiency and sustainable funding within the NFP sector.

Recovery performance targets and benefit realisation

It is foreseeable that recovery will slow during the 2014/15 financial year as productivity has been impacted by service, practice, system changes, and training. These developments have also resulted in one-off unfunded change and capability costs in the short-term. Unfortunately, the MoJ revenue changes overtook the gains made to 30 June 2012/13, in the 2014/15 year.

For these reasons, it is important that the corrected forecast for 2014/15 year, which includes unplanned ongoing revenue reductions, service change impacts and resulting one off costs, is not negatively received. It is possible to close the current gap with support, provided transitional funding is agreed and forward contract fee issues are addressed. The benefits of the new business and service models and ICT and organisational capability streams with regard to client service quality and performance and reporting are only starting to be realised. This will significantly improve performance data, planning, service purchasing and reporting practices for forward years.

Key Considerations - Management of Change

Return on Investment

There is a large amount of academic and consultancy based literature on the subject of Return on Investment (ROI) of transformational change management programmes. There is general agreement that in this area, that ROI is a medium to longer-term matter. That more often than not premature assessment is made before the full benefits can be realised. Further, that this occurs as a product of the very conditions and uncertainty that often leads to the need for and speed of transformational change.

By definition transformative change responses provide for a less than certain environment where information and outcome are often unclear and can expect to be so for some time. Transformational changes though guided by a plan, are not stepped processes and must be interactive to the conditions and related change needs to be successful. This involves risk and demands a level of sophistication and courage at leadership and governance levels. These factors need to be dispassionately considered and evaluated at the outset of any transformational change programme and revisited all the way through it.

Organisational capability and culture

RA's core capability was related to its clinical skills and traditional charitable-style community services. It had grown organically over time, but its business systems, workforce and related work practices had not evolved to accommodate this growth or environmental changes. Fee structures were not sustainable and did not support the type of change in capability needed.

The resulting culture did not lend itself to the new demand for the management disciplines and workplace skills necessary to deliver the changes required. Prior to the CIR investment this was reflected in RA staffs' general perception that, successive financial crises would inevitably be resolved without any real need for change among the workforce.

This historical pattern of announcing crises and the need for change, without any sustained effort to effect change among the workforce, had generated a culture of complacency and inertia. Active engagement on these attitudes has been required throughout the programme across all work streams. As change theory would predict, whilst the investment in capability has achieved the shift required, continued reinforcement of the changes and practices required will continue to be needed for the foreseeable future.

Existing leadership and management skills

At all levels, RA managers had excellent knowledge of their community, service offerings and counselling best practice. However, core leadership and management disciplines and skills were not strong and could not have been invested in within existing core funding provisions.

In view of the level of CIR funding then agreed and in order to retain critical institutional knowledge to support recovery and retain a level of engagement, the choice was made to retain a number of leaders and develop their skills in the areas required (in most instances). Their skills had to be strengthened ahead of further investment in the advanced skills necessary for both business recovery and the change programme. Only a small number of new personnel with the necessary leadership and management skills were brought in. Undoubtedly this approach assisted with change engagement in the early phases and reduced the total fiscal cost of change in the first year. However, the value of this approach was limited because of high skill development needs, the time needed for this and acceptance of change concerns. This resulted in a heavy reliance on the few developing leaders that were fully engaged and the few external resources brought in to build capability.

Governance dynamics

Both the major government funding agencies, RA and its Board recognised and agreed that governance culture and skills would be essential ingredients for successful stewardship through the course of the recovery and sustainability programme. A skilled Board was seen as pivotal to navigate through a period of sustained business transformation, change and recovery.

While a new CE and leadership team was put in place, the Board membership remained largely unchanged, except for with the addition of a new member in 2012/13 year. The external programme reviewers queried whether the RA Board had reflected on the governance contribution to RA's predicament and therefore had the necessary insights and complete set of skills to support the CE. These questions could only reasonably be addressed to the Board directly and not to the Programme Director. A meeting between the Board and funders was subsequently arranged. The report writer is not privy to whether these types of considerations were discussed at that meeting.

For their part, the Board has engaged in the governance development work programme and this is reflected in the revised Board work programme and focus. A number of insights of importance that are worth noting have also been offered by RA Board members in the course of the preparation of this report, and their reflection development and insights.

In particular, paraphrasing one of the sentiments expressed, the potential for NFP sector Boards that have charitable focus and motivations to see themselves as more of a "Board of Professionals" assisting an NFP, "than a Professional Board". Though unlikely to impact Directors operating with best intent in an NFP sector, the Legislative provisions related to the operation of Boards and Director liabilities demand that all Boards irrespective of their organisations status operate as Professional Boards. This requires recognition by major funders and within the NFP sector that funding needs to be sufficient to ensure Boards are well supported in meeting the challenging demands and obligations of governance.

A disconnect between the Board and organisation about the achievement of recovery targets and capability and sustainability deliverables has been a real programme risk, especially with system, data, and practice issues that lead to the programme and were to be corrected as part of it. To reduce that potential, all presentations and reports on the combined programme have been provided to the Board. From the beginning it would have been helpful to have joint discussions between the Programme Director, the Funders, the RA Board and CE about:

- The history, the different roles and expected contributions of governance, leadership, funders and the programme leads to the combined programmes success,
- The reason for CIR funding and the purpose and limitations of the funding, and

- A formal memorandum of understanding between the RA Board, CE and Funders, and
- A shared understanding about transformative change capacity and return on investment

This would have better supported the RA Board in their assurance role, as partners to a complex inter-dependent programme of business recovery, capability and transformative change.

Key programme leadership skills and risks

Developing, leading and implementing a programme of this nature, in the circumstances outlined, is a high stakes business for everyone involved. Taking on this programme has demanded transformational leadership, commitment and courage from the new CE, leadership and programme leads. This combined with agility, business skills, sound knowledge of government funding and purchasing practices, the use of networks, clinical knowledge and change management skills have been critical to the success to date. It is essential that efforts be made to retain these skills and level of commitment within the NFP sector whatever the decision on RAs future.