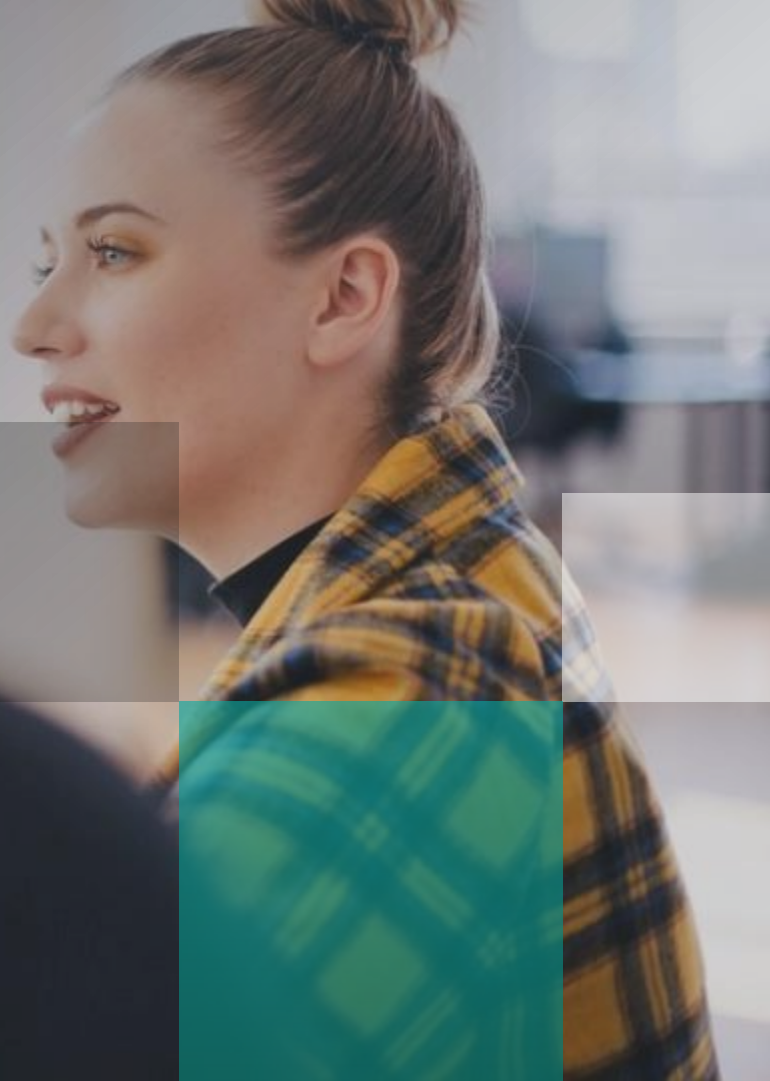


Risks and building resilience



Challenges

- Income generation tough
- Cost pressures
- Staff recruitment and retention difficulties
- Beware of changes in law and regulation

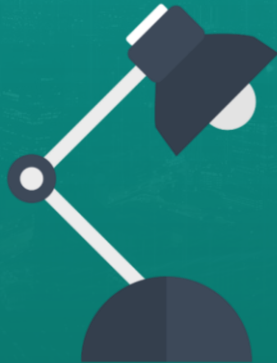
Uncertainty puts increased pressure on service delivery



- Future uncertainty of how long cost of living crisis will last
- When will utility costs reduce?
- There are views inflation and utilities may take several years to normalise
- Therefore any use of reserves may not be short term but may need to take a much longer view
- Any planning must consider that longer term view as well as the short term survival and effect of any reserves usage

Financial sustainability is:

generating resources to
meet your needs now and
in the future



- Never ending – constant review and refresh based on how quickly assumptions and circumstances change
- About translating strategy and business plans into the financial implications with regards resources and delivery – short and long term
- Understanding those plans
 - deficits are not necessarily bad - e.g. planned investment and timing differences
 - spending reserves may be necessary
 - restricted funding and projects and their strategic future – stop/start mentality?
- Planned financial management –looking more than one year hence and understanding the limitations in those forecasts

Financial sustainability key messages

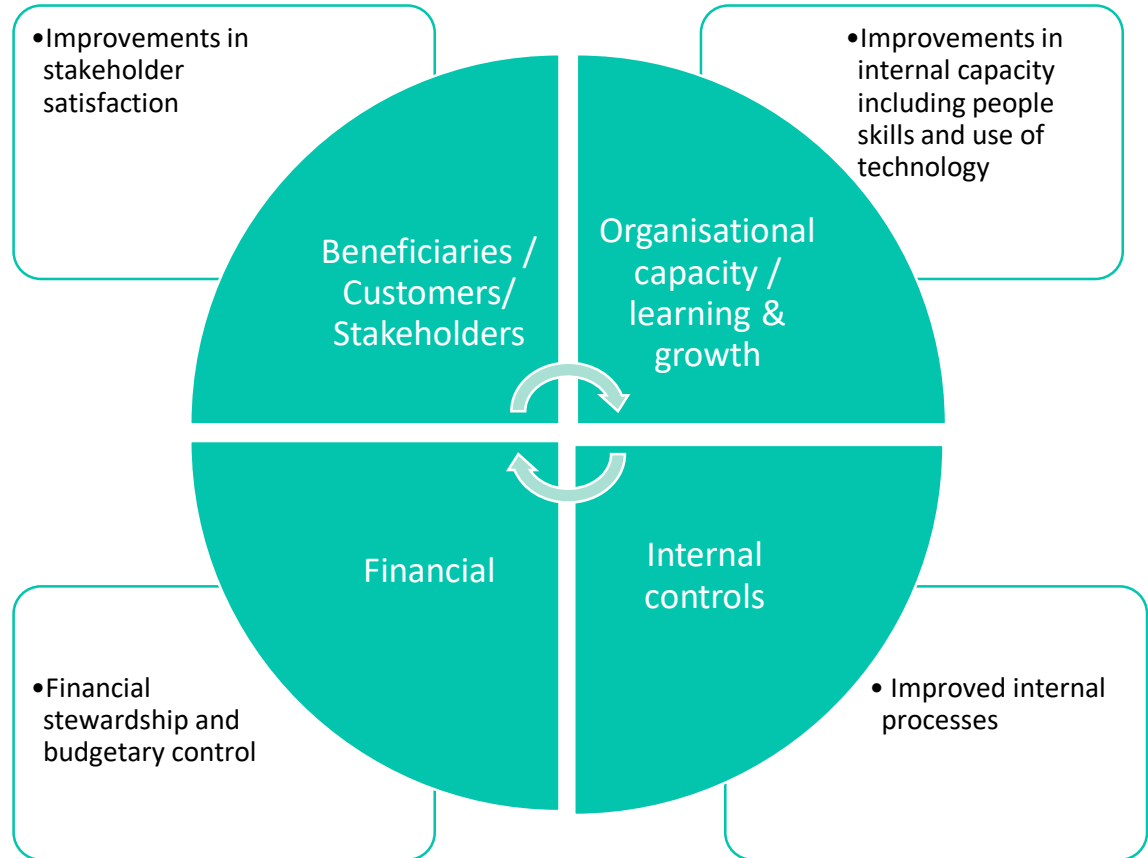


- What is your USP? Where do you fit?
- Diversifying income sources?
- Reliability of each of these sources and associated risks
- Consider your own income generation potential
- Sufficient cash - manage usage
- Stop 'chasing money' - stop/start on projects
- **Its not just about money**
- **Relationships** –funders/corporates/donors
- Communications strategy
- Your capacity may be limiting factor

Balanced scorecard – measure, monitor, change...

Steps to success:

1. Assessment
2. Strategy
3. Objectives
4. Strategy map
5. Measures and targets
6. Strategic initiatives
7. Performance analysis
8. Alignment
9. Evaluation



Financial resilience is

- the way that successful organisations deal with inevitable and unforeseen interactions, issues and opportunities in running their business and have the ability to rebound from a financial shock....
- You need financial robustness, anticipatory capacity and awareness to **anticipate, react** and **adapt** and not be complacent in business. Flexibility to **proactively change** and your recovery ability in finances and assets



What are reserves for?

Sustainability and resilience

- fluctuations in income/income risk
- investment
- future versus current needs
- designated funds

What are your 'free' reserves?

Cash
flow/working
capital reserve

'Rainy day fund'
– risk
management

Need a reserves
policy

Once they are
gone they're
gone

What can go wrong?

- Charities could run out of cash
- Unmanaged finances lead to unplanned use of reserves
- Restricted income overspend drain free reserves
- Reputational risks
- Lack of funds to meet new requirements and investment
- Inability to meet commitments or planned objectives

Strategy and
future plans
– investment,
new plans and
commitments



What are the definitions of reserves?



Definition of 'free' reserves

- For the purposes of **Trustees Annual Report** a charity's reserves are its 'free' reserves
- Derived from a charity's **unrestricted funds** per charity's financial statements
- May or may not include any **designated funds** set aside by the charity to fund specific planned expenditure
- Designated funds form part of a charity's reserves but are not '**formally**' funds and count as unrestricted funds
- Designated fund is a **portion** of unrestricted funds set aside for a **particular purpose** by the trustees (Para 2.7 - funds can only be treated as designated if they are '**earmarked**' during the reporting period)
- Trustees may choose to exclude designated funds from the calculation of charity's reserves – **mixed messages**
- Term '**reserves**' is confusing as is able to be confused with a charity's funds as presented in its balance sheet

Lets consider example

Funds on balance sheet of charity

Endowment Funds	E
Restricted Funds	R
Unrestricted Funds:	
General	G
Designated	D
Total Funds	T

So the starting point to calculate 'free' reserves is to eliminate endowment and restricted funds:

Unrestricted Funds:	
General	G
Designated	D
Total Unrestricted Funds	UR

Review your funds....

Can you free up any reserves????

Is your funds classification correct?

- **Review** restricted/endowment funds to ensure **correctly classified** – ‘older’ funds may be misclassified in past
- Many charities have **freed up funds** in this way
- If there are restrictions -may be ways to **amend these restrictions**
- Approach funders of unspent monies
- Consider the wider and longer term **impacts** on your **financial resilience** and **donor relationships** if you repurpose
- Otherwise accessing or releasing restricted funds under Charities Act if you cannot currently spend these
- All significant decisions and action points **noted in writing**



Reserves policy

In considering using reserves you need to understand your current policy

Reserves policy

Reserves policy links with strategy and business plans **not in isolation**

Need to understand **financial model**

Risks of that model – perhaps consider sources of income but also expenditure like payroll and auto enrolment and future commitments

Strategy and future plans – **investment** requirements

Working capital and cash flow risks

All interact in building the reserves policy which feed into the strategic plan

Your reserves
policy in your
financial
statements



Spending reserves – further reading:

Charity Commission guidance:

<https://www.gov.uk/guidance/manage-financial-difficulties-in-your-charity-arising-from-cost-of-living-pressure>

Balance between:

- reducing costs now in order to be able to preserve funds to support beneficiaries in the future, and
- meeting the immediate needs of the charity's present beneficiaries with the possibility that in the future the charity will have to reduce its services or close entirely

Sell assets? Borrow?

Spending free reserves to support operational deficits



Remember: liquidity vs free reserves

- High cash values may be tied up - restricted
- Free reserves may not be liquid
- May be tied up – legacy debtor for instance could be in free reserves and may take years to realise; or may have loans which are slowly being repaid or investments which would need to be realised



Cash flow management

Charity Commission expectations

Trustees expected to:

- Regularly assess financial position
- Recognise potential financial difficulties early
- Ensure financial information received on a timely basis
- Review sources of income – dependencies, diversification?
- Review planned expenditure regularly – inefficiencies?
- Regularly review risk and reserves policies
- Take action when necessary!



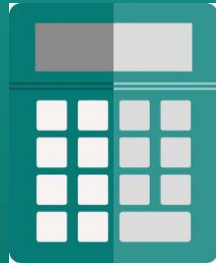
Financial management

CC12 'Managing a charity's finances: planning, managing difficulties and insolvency'

- Requires charities to produce budgets at least annually
- During uncertain times more regular updates required
- Shouldn't only consider income/expenditure
- Regular monitoring required – variance analysis
- Prevention better than cure!



Charity specific indicators that may cast significant doubt over ability to continue as a going concern



Indicators include:

- inability to finance its operations from its own resources
- deficits on unrestricted funds
- loss of 'clients' (e.g. public authority ends a practice or contract to refer (and pay for) clients to charity)
- loss of operating licence (e.g., for a residential care home)
- significant changes in strategy of major funders
- significant decline in donations by the public
- investigation by a charity regulator – PR?
- claw-back of grant received
- reliance on major donors
- failure to meet reserves policy targets or carrying reserves insufficient for the current scale of activities
- persistent failure to meet requirement for public benefit, leading to withdrawal of funding or tax liabilities
- transfer to, or takeover by, another entity of charity's activities

Matters which can complicate assessment of going concern basis:

- for income consider charity's income sources, their regularity (timing), predictability and degree of risk attaching to each
- future public goodwill in giving cannot be relied on
- grant funding is dependent on compliance with grant conditions so must assess effect of compliance with grant conditions or other evidence where such withdrawal or disallowance could be fundamental



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Manage your
turnaround plan

Income generation
Cut services/costs
Merger?
Close

Recovery plan

- Monitor performance
 - Financial – and agreed deficit funding and remaining on track
 - Redundancies and cost management in the interim?
 - Income generation and plan to rebuild income and over what period and how

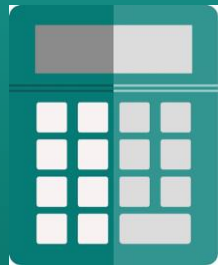
Critical function

- Need to assess how long the organisation can survive and what needs to happen to turn it around



In turnaround consider the longer term goals

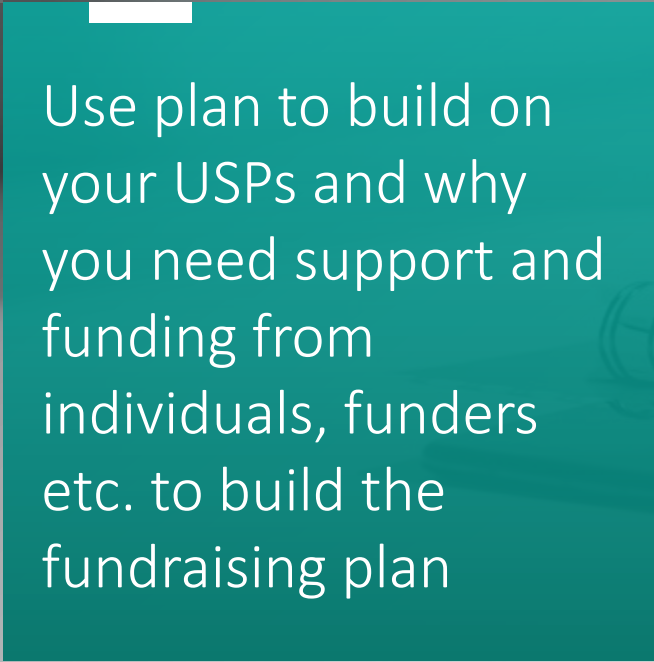
- Help focus on impact and income generation opportunities, bid writing and plans
- Good idea to focus on USPs



What are you trying to achieve? Focus on direction of travel

Strategic:

- Policies
- Length of strategy
- Environment
- Services (e.g. new services or services delivered in different ways)
- Ways of working - remote
- Social norms (e.g. knowledge, attitudes, values or behaviours)
- Also need to consider what individuals within the organisation are trying to achieve e.g. skills, abilities, attitudes etc.. If all staff are on board it can aid strategic development and implementation.

A teal-colored rectangular overlay containing white text, positioned on the left side of the slide.

Use plan to build on
your USPs and why
you need support and
funding from
individuals, funders
etc. to build the
fundraising plan

Income generation

Key current challenges

- Loss of income
- Restricted funding delivery
- Cancelled events
- Reliance on key income sources
- Competition

Steps to mitigate

- Can grant funders help?
- Additional funding or repurpose?
- Are they on board to manage through challenges, delays, un-restrict funds?
- Relationships
- Understand their requirements and needs of their Boards
- Build resilience into your bids

Funding applications

- Read funding application
- Ensure answer all questions
- Tailor response to be short precise and linked to strategy of charity and impact
- Ensure submit budget

Ensure you have read the grant funders requirements and you do MEET the criteria

Research and time commitment to select funders

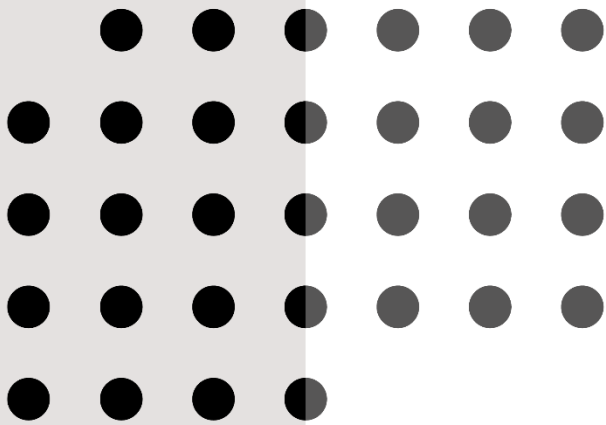
Allow sufficient time to complete application

Have someone else read through for typos and alignment with strategy and goals

Manage relationships with funders

Say thank you

Calendar



Other income streams or future sustainability to show life of project will help

Share stories, statistics and impact



Funders and local authorities

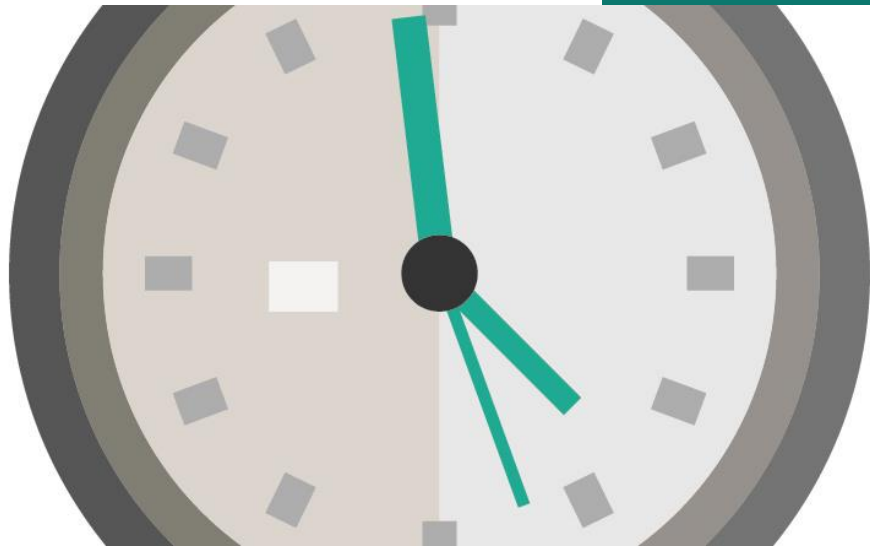
Invest time in ensuring bids are part of the strategic plan with its associated financial budgets and delivery

Identify monitoring criteria and how they will be tracked

Understand
funding terms
and actively
manage costs
versus budget

Build
relationships
and keep
funder
informed

Build in
resilience and
full cost
recovery

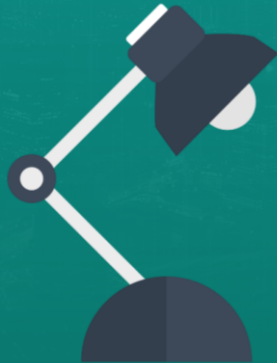


Beware of
mission
drift



Further ways to manage future:

Cost cutting!



Property

- Do you need all of the space – rent excess?
- Move to smaller space or look at hybrid working to manage offices?

Cost cutting or management of costs:

- Seek support for major suppliers if they can help with discounts or support or defer payment
- Look at consortia to reduce costs? Perhaps utilities?
- Ability to reduce costs – like using digital, emails etc. to reduce use of travel, stationery, paper and postage. What can you change and reduce in budgets or stop?
- Redeploy the team to focus on key income or service delivery, reduce hours or provide other rewards other than financial (e.g. extra holiday)?

CC8 - Internal Financial Controls

Update issued:

26 April 2023

Why you need internal financial controls

- Protect your charities assets
- Make informed decisions
- Meet your legal duties, e.g. manage charity's resources responsibly

Identify and manage risks with finance and assets

Keep good quality accounting records

Prepare timely and relevant financial information

Mismanaging your charity's finances or assets can damage:

- Your Charity's financial viability
- Your staff and volunteers morale
- Your charity's reputation
- Public trust and confidence in charities

Financial reporting complies with the relevant legal requirements



New guidance includes:

- Using a mobile payments system such as Google Pay and Apple Pay (you should have the same controls as debit, credit and charge cards)
- Considering donations of cryptoassets including cryptocurrencies and non-fungible tokens (NFTs)
- Other updates to related parties, fundraising and working overseas.
- New section on hospitality

Use guidance from the [National Cyber Security Centre](#) for advice on keeping your charity protected online. [UK Finance](#) also has useful guidance on online payments.

24% of charities experienced a cyber attack in the last 12 months

(Department for Science, Innovation and Technology)



Manage your charity's assets responsibly:

Understand the risks of holding, and the limitations of using, cryptoassets before you accept donations of them.



Risks associated with cryptoassets including:

- the volatility of their value - can change very quickly
- potential fraud or theft by hackers
- the lack of protection compared to traditional currencies or financial products –largely unregulated and unlikely to have access to the Financial Services Compensation Scheme (FSCS) or the Financial Conduct Authority (FCA) if something goes wrong
- that laws on cryptoassets vary between countries – cryptoassets are banned in some countries and other countries have complex regulatory requirements
- cryptoassets can be made anonymously
- few retailers accept them as payment
- the environmental impact of cryptoassets and blockchain technology – many of these use a lot of energy and you should check how this fits with any environmental, social and governance policy you may have

You need to consider:

-
- how it helps you deliver your charity's work
 - whether it is reasonable
 - whether it gives rise to more than incidental personal benefit
 - whether it poses any risks to your charity's reputation, including if it could be viewed by others as excessive or unnecessary

New Section 10: Accepting hospitality including gifts

You should have a policy which:

- sets out acceptable limits on hospitality
- prohibits accepting hospitality, which either is, or could be seen to be, a bribe, a corrupt payment or to secure preferential treatment
- requires records to be kept of hospitality given, accepted or refused. This should also be noted on your charity's register of interests if it relates to trustees
- applies to everyone
- is understood by everyone

Compliance
risks

Economic Crime and Corporate Transparency Bill

Manage your charity's assets responsibly:

'failure to prevent fraud, false accounting or money laundering' could become a criminal offence



New corporate **criminal liability** brings responsibility onto the entity and thus its **key management for failings in the internal control environment** that allowed fraud, false accounting or money laundering to occur.

Currently: if there is a failure in the control environment that allows a fraud to take place, there is a requirement for prosecution to demonstrate that management were fully aware of the weakness in order to be able to take proceedings.

In future: This would completely change the onus of proof to just the weaknesses existing in the control environment that allowed the activity to take place.

Act now: organisations need to demonstrate that they have documented potential fraud, false accounting and money laundering opportunities and how these will be managed through preventative measures.

Steps to mitigate

- You need access to information to evaluate your key strategic risks and emerging trends in the organisation to make informed decisions



Reminder:

- How do you deliver your mission and monitor that?
- Do you have a clear 'scorecard' which explains the operational and financial numbers
- Do all trustees understand the scorecard?
- Is the income risk clear to the Board – how much is guaranteed, grant funded/contracted, in the pipeline or purely estimated
- Manage your costs and overheads in a timely manner
- Be aware of legal and statutory requirements to manage risk in your organisation

Contact us

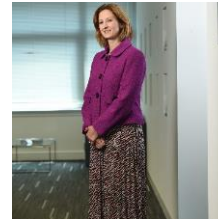


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