

Avoiding financial difficulties



At some point in an organisations lifetime, it is bound to experience financial difficulties of one type or another. The difference between these difficulties becoming overwhelming or being taken in the organisations stride depends heavily on how well managed the organisations finances are:

Do you know what funding will be coming to an end and when?
 Have you started looking for income to replace these?
 How diverse is your income?

Do you have a good level of reserves?

Etc.

Good financial management

Good financial management is an integral part of any organisation. No matter how small or large, managing the finances well is essential. Don't leave all financial management up to the Honorary Treasurer or finance staff (if you have them), it should be tied in with all of the organisations planning. *'Financial management involves planning, organising, controlling and monitoring financial resources in order to achieve organisational objectives.'* (Know How Non-Profit)

Financial controls:

All the members of a board have financial responsibilities and should not rely solely on their treasurer. Trustees must ensure that the assets of a charity are used properly in furtherance of its objectives. Financial controls are internal checks and procedures that help to reduce (but do not eliminate) the risk of losses through theft and fraud, bad decisions, human error, breaches of controls, management override of controls and unforeseeable circumstances. If staff follow the correct accounting procedures and controls then trustees should be able to check them against final reports to identify any mistakes.

Budgetary controls:

Well-managed organisations draw up an annual (or even for a longer period) budget, showing all income and expenditure. At intervals during the year reports should be drawn up showing actual figures compared with budget. In this way, departures from the budget can be identified and corrective action taken. The board (management committee) should be confident that they are fully aware of the organisation's financial position and should have the skills and experience to take timely corrective action should it be necessary

Cash flow forecasts:

Cash flow forecasts show the amount of money flowing in and out of organisations and are used to predict an organisations ability to pay its bills and expenses. In poorly-managed organisations, cash flow forecasts tend to be absent. Or, they may exist but are not updated. An understanding of your cash-flow is vital to good financial management; more so where cash levels are low.

Poor understanding by board members of budgets, budget reporting, cash flow and cash flow reporting and how to read financial reports, are often key factors in financial crises. It is therefore essential to seek appropriate support and training.

Avoiding a funding crisis

Some types of funding crisis are unavoidable. But you can put things in place to help your organisation manage any kind of fundraising crisis, and avoid an internal funding crisis altogether. In reality, this just means doing the basics of fundraising and organisational management well. In particular, planning, communicating, and managing.

Planning:

Planning is key to a successful organisation and by doing this well, many other aspects of running an organisations will become easier. Strategic planning (often for 3 – 5 years) sets out the direction the organisation will take and its priorities over the coming years in line with its objectives. The business plan (normally yearly) looks at the more operational aspects of how to meet your strategic priorities each year, providing a clear guideline to what resources will be needed. Without this sort of overview, it is very easy to drift away from your mission, chase funding rather than fund what you do or get lost in projects and lose the organisations identity.

Fundraising strategy:

From your organisations' strategic and business plans, you will develop and maintain a fundraising strategy that plans out how you will get the resources to do the work in your plan. As part of your fundraising planning, it is vital to keep building and developing your case for support and the evidence that shows what needs you meet and what impact you have for your beneficiaries and the wider public.

Income diversification:

Relying too heavily on one source of income can make your organisation vulnerable to a fundraising crisis if something happens to that source. A sensible long-term fundraising strategy for an organisation would consider the options for diversifying your income, and put strategies in place for developing those sources. Contact Community Southwark if you would like to discuss ways in which you can make your organisation more financially sustainable.

Reserves/unrestricted funding:

If you can develop a plan that will enable you to build up some income as reserves for your organisation (ideally unrestricted reserves that do not have to be spent on any particular project or activity), you have much greater ability to manage through a funding crisis. The Charity Commission requires charities to have a [reserves policy](#) which specifies the level of reserves that individual charities have or plan to have. The reserves policy should also say why the charity maintains a particular level of reserves.

Risk assessment and management:

The Charity Commission expect all charities with annual income of more than £500,000 to have an organisational [risk assessment](#) and process a report about which should be included in the charity's trustees report in the annual financial statements. It is good practice for smaller charities to have such a process. Contact Community Action Southwark for further information.

Full cost recovery:

[Full cost recovery](#) means securing funding for, or "recovering", all your costs, including the direct costs of projects and all your overheads. Every organisation, whether voluntary, public or private, needs to pay for all its costs, and ideally generate a surplus, or it cannot pay its employees, rent office space, offer its products and services, or plan for the future and the continued development and delivery of its services. Typically organisations will include in their funding applications an amount to cover core administrative and managerial cost.

Exit strategies:

You need to have a plan for what will happen at the end of a project or a funding agreement. If you plan to look for replacement funding, do this well before the current funding comes to an end.

Skills audits:

Throughout your organisation, you need to make sure that the personnel involved have the skills to do the tasks they take on. In general, you should ensure this for your staff and volunteers with good recruitment practice, and good ongoing management and support. However, you should also make sure that you have the skills you need on your Board and that you use those skills effectively. These skills may be hard or soft: you may want someone with particular knowledge but it may also be useful to have a good facilitator on the board as well. A regular skills audit can help you keep track of what skills your organisation needs, and what skills it collectively has.

Communication, within your organisation:

Management committee, staff and volunteers – without good procedures for communication and reporting within your organisation, you have a higher risk of internal issues like poor financial management going unchecked. Quick team catch-ups, longer team meetings, support sessions and clear guidelines on how to report problems or worries some ways to ensure everyone is able to communicate effectively.

Communication, with members, service users/clients and supporters:

It is a good accountability check on your organisation to have regular communication with your organisation's membership (if you have one), or with your service users or supporters. But it is also a good method of maintaining awareness of your work and your organisation. Should you ever have a funding crisis, this regular contact will make it much easier to get support from a crisis appeal or a campaign.

With funders, potential supporters and other key people and organisations in your field during difficult times, you will have a much better chance of finding crisis funding or support if you have done the groundwork of making sure that your potential supporters know about your work. For example, local authorities and primary care trusts sometimes make funding available at short notice. You stand a much better chance of finding out about these grants and securing them if you are involved in the wider structures relevant to your area of work.

Networks and consortia:

By being involved in relevant networks, you can find out what is happening externally that may affect your work, and plan accordingly. For information about CAS support see our [website](#).

Management:

Effective management means having an overview of everything that is supposed to be happening, ensuring that the plans are implemented, and that all involved have the support they need.

Just because things have been going well for your organisation in the absence of the above measures does not mean that they will continue to go well. Trustees and board members can easily be lulled into a false sense of confidence. A governance 'health' check can reveal potential problems. Contact Community Southwark for more details.

Resources

- **Fit4Funding** help and advice section ['When Funding Ends'](#)

- The Charity Commission guidance sheets on **reserves**: [CC19 Charities and Reserves](#), [CC25 Managing charity assets and resources: an overview for trustees](#) and [CC26 Charities and Risk Management](#)
- The Charity Commission guidance CC12: [Managing financial difficulties and insolvency in charities](#)
- **CASH-online** has a range of resources covering most aspect of financial management <http://www.cash-online.org.uk/>
- The Basis project as very useful 'starter' guides <http://www.thebasisproject.org.uk/> available free online: financial management; governance; fundraising; and project development and management.
- Know How Non-Profit: <http://knowhownonprofit.org/organisation/operations/financial-management/management>

Support

If you would like any support with your organisations finances or any other issues facing your organisation, please contact the Development Team at Community Southwark: development@communitysouthwark.org.uk or 020 7358 7020.