

Managing through financial difficulties



There are many reasons why a voluntary or community organisation may find itself in a crisis. When it comes to finances, these could be external or internal. For example, an unexpected funding cut or an unsuccessful funding bid (external) or lack of financial policies, inefficient budgeting (internal). Some issues are difficult to foresee, others may be expected but your organisation has little power over the outcome. However, others can be expected and avoided through good management.

This briefing looks at managing financial difficulties. A number of options are suggested. These options though become fewer the closer to the 'crunch point' where the organisation nears insolvency. Most organisations should be able to project ahead at least a year (very often longer) and should be able to pinpoint when their crunch point will be reached. In such cases options available may be very wide. If there are no options then at least with forewarning the organisation can plan for an orderly wind-down, transferring its services and remaining funding streams to other organisations.

It is important to be prepared for every situation, so you are able to be proactive, rather than reactive. Unfortunately, it is the nature of the sector that organisations often wake up late in the day to the nature and extent of their problems and a crisis follows.

If you are faced with a financial crisis:

Call an emergency meeting of the board (management committee) to look at what has happened and agree what action you will take. The funding of the organisation is ultimately the responsibility of the management committee and it is the management committee who will be liable and who should lead action.

You need to look at why you are in a crisis - what has happened to put you in this position?

Types of financial crisis:

- Fall in income due to an economic downturn or public expenditure cuts. Look at the nature of the grant. Ask where it comes from and what does it pay for? Project costs; your core costs; service delivery; and/or salaries? Who and what will its loss affect? Is the grant restricted or unrestricted?
- Poor financial management by your organisation, for example, the board failing to check the budget or budget reports regularly; lack of future forecasting; bad practice in recording finances etc.
- Unforeseen expenditure, like the costs of building work getting out of hand, unexpected equipment breakdown, an unexpected rise in running costs such as rent or legal actions, say around an employment tribunal.
- Failing to plan a proper exit strategy and/or replacement for the end of a time limited grant.

- Poor organisational management of other issues, such as continuing to employ staff knowing there isn't enough funding for salaries.

Often the reasons for a crisis are complex. The management committee/board should ensure that it creates a safe environment where the situation can be fully explored. It may be worth asking for advice, as external advisors may see more clearly how the problems have arisen.

When you have identified what has gone wrong, you can start work on how to put it right. Think through your plans and avoid rushing into ill-thought through actions.

What to do in a financial crisis

1. Find out:

- What has happened? What type of financial crisis are you in?
- Why it has happened? For example, if your grant has been cut, is this a cut that just affects your organisation, or has the funder cut other organisations too?
- The impact and the timescale? What the results of this crisis will be. For example, if a grant has been cut, when will the grant stop, and how long can you continue with the funding you have in place?
- For 'external' financial crises like unexpected grant cuts and unexpected expenditure, your priority is to get on with planning and implementing a strategy for raising the money or reducing the expenditure to remedy the crisis. However, for financial crises that result from your organisation's own lack of management or planning, then your immediate priority is to fix the internal problems and make sure they won't happen again.



2. Plan your options:

Build on the exploratory work you've already done to make a plan for dealing with the crisis. It's useful to think of this like a project, where you set out the outcomes you want to achieve, and plan out the steps that will achieve those outcomes. The main things you need to consider are:

- What is the best-case scenario? What possible outcome or outcomes would solve the crisis? Is there a target amount of money you would need to raise? Or an amount of expenditure you would need to cut?
- Other scenarios? You might be able to think of other possibilities that would enable you to carry on but wouldn't be ideal. It's worth thinking about the other possible solutions and devising fall back plans.

3. Approaches

Using the options outlined below, you can begin to develop a plan for how you intend to meet your outcomes, setting out the steps involved and prioritising them.

- Who does what by when? Now you have a set of tasks to do, you can start to assign them to particular people within your organisation, and set deadlines. Like any project, you also need to make sure that someone has responsibility for managing the work, ensuring deadlines are met, communicating important information and measuring progress.

- What is your next action? The work needed to tackle a financial crisis can seem daunting. It is important to get started as soon as possible, by determining what the next action to be done is, and then doing it.

The details in your plan will depend on your organisation, the nature of the crisis and the resources available in the short and long-term. It may be better to close a service for a period of time while you seek to establish a more stable financial environment, rather than spending your time constantly 'rescuing' a service for weeks or months at a time.

You might want to look at referral options for your service users. You may also want to consider whether or not that particular service is best run by your organisation. Is there someone else doing similar? Are they doing it better? Are they getting funding for it? Could you work together, running different services?

4. Communication

The organisations Management Committee/Trustees should identify any possible financial crises. All of the management team in your organisation should know about a financial crisis as early as possible and be involved in the planning stages for dealing with it. However, you also have a responsibility for making sure that you communicate effectively with other stakeholders including: Your staff and volunteers; your membership, if you have one; your service users; your funders etc.

You may also want to get in touch with various organisations that could provide support and advice such as Community Southwark (a full list of support is available at the end of this document).

5. Options

Exactly what you choose to do and how you choose to do it will depend on the nature of the funding crisis you face. These are options, not necessarily exhaustive, that you might look at. Do remember that options reduce the closer you come to the 'crunch point'.

6. Cut costs

Are there areas where you can reduce costs? Is there any non-essential expenditure that can be stopped. Could you negotiate a payment holiday your rent, for example?

Would outsourcing, say your finance function, could save money? Could you save through working with other organisations in different ways?

Could you reduce rental and other costs by sharing premises with other organisations?

Could you cut expenditure in the short-term by reducing your level of service delivery, for example, reducing your opening hours? In all cases, you need to be clear about which costs are essential and which are not (for example, if you owe wages or tax, you have to pay these). You also need to make sure you operate legally, especially if you are considering reducing staff hours or making staff redundant. The funders of a service would have to know if you were thinking of reducing the level of service and you might want to consider this option very carefully.

Seek advice to make sure you meet your responsibilities to your staff and volunteers.

7. Try current funders:

By far the most likely sources of funding to help you through a crisis are your current funders, since they already know and support your organisation and its work, and they have an interest in protecting their investment in you.

You will need to think about your case for support: What are you going to ask them to pay for? What needs will that meet, and what difference it will make? If your crisis is due to a statutory funder cutting your grant, you can try to negotiate with them before going public or launching a campaign. Make sure you know the terms and conditions of your grant, and make use of the [Compact](#) in your negotiations.

8. Statutory Funders

Options for support from Statutory Funders are less likely in times of public expenditure cuts. Nevertheless if your organisation delivers services or activities that the public sector benefits from, you might be able to approach the relevant statutory body for support. A good relationship and contact with officers is important. It may be helpful to you if you are already involved in relevant networks and partnerships.

9. Other funders – non-statutory

Local organisations may consider approaching local funders such as charitable trusts for crisis funding. You can improve your chances if you have contacts with the funder and can approach them informally.

10. Other sources of income

You may already raise some of your income from sources other than grants, such as selling services (social enterprise), responding to tender opportunities, or an individual giving programme. If so, you may be able to focus on one or more of these sources to bring in some additional income. However, it is important to think through the timescale of any likely additional income, as it can take a long time to receive money from things like taking on additional work under contract.

11. Repackaging

Is it possible to 'repackage' your service to make it a more attractive proposition for potential funders?

12. Loans

If the fundraising crisis you are in is a cash flow problem, and you expect to bring income into the organisation in the future, you could take out a loan to plug a temporary gap in finances. You need to be confident that you will be able to pay this back and you should have financial projections to back-up your argument.

13. Appeals

Organisations with a membership (or at least a mailing list of users of your services and Supporters) could run a one-off crisis appeal asking them for one-off donations. Used sparingly, crisis appeals can be a good method of fundraising that also raises awareness of your organisation and its continuing need for resources. Once again, it is important to make your communication about the crisis as clear as possible. For an appeal, you set a target to raise, and a deadline, then publicise the appeal to your members, service users and supporters, requesting one-off donations. Be specific about what will be done with the money, and keep a high profile by reporting on progress. Don't forget to thank everyone who makes a donation. You should make it as easy as possible for people to donate, and make use of the media to publicise your appeal.

14. Campaigning and lobbying

Running a campaigning and lobbying effort is not the same as an appeal. It involves a targeted series of communications and publicity to all your stakeholders and the media in order to raise awareness of the impact of your services and the terrible consequences of their demise, generally in order to put pressure on statutory funders to step in and support you. The most likely scenario in which you would campaign is when a public sector funder has cut your grant suddenly or unexpectedly (although you should try to negotiate directly with the funder before going public with a campaign). There is also a good case for starting a campaign if you are delivering activities or services that a statutory body gets a lot of value from but they do not currently fund. Again, you should contact the statutory body directly first to attempt to open negotiations over future funding.

15. Challenging the funding cut

Formally challenging a statutory funding body's decision should not be entered into lightly, as it almost always suggests a breakdown in relationships that can be difficult to restore following an adversarial process. It is far more constructive to take a conciliatory approach to the funding organisation, highlighting the value of your organisation as a partner, contributing and adding value to shared aims and objectives. Whilst investigating the fairness and legality of a decision to cut funding should rightly be an early response, moving to a formal complaint or challenge should be one of the last to give every possible opportunity for a more sustainable outcome to be negotiated.

16. Merger

Not usually an immediate solution and if you are in a financial crisis you may not be an attractive proposition to potential merger partners. However, there may be other collaborative projects you could begin that will save money for the future. For example, you may be delivering a service that is already being delivered, more successfully, that you could work more closely with rather than duplicating the service? Contact Community Southwark for further advice on collaboration and merger.

If things are looking really bad...

If the crisis you face is serious enough to put your whole organisation's future in jeopardy, you might have to consider either closing down.

When the directors of a charitable company know, or ought to know, that there is no reasonable prospect of avoiding insolvent liquidation they must from that time take every step necessary to minimise the potential loss to the company's creditors. This may involve cutting down or stopping some or all of the charity's activities. The paying of professional fees for advice obtained is, however, justifiable on the ground that the trustees are taking the proper steps to find the best way to meet the claims of the charity's creditors.

Trustees should do all they can to ensure that they are aware of the financial position of the charity to ensure that insolvency is avoided. If at any stage you suspect that your charity is or might become insolvent you should seek advice as a matter of urgency. Community Action Southwark can assist you in assessing your financial situation and looking at the options that are available to you.

Support

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

Resources and Further information

- NCVO's Sustainable Funding Project website has various guides and publications on diversifying your income sources.: www.ncvo-vol.org.uk/sfp
- Charity Commission Guidance CC12 - [Managing Financial Difficulties and Insolvency in Charities](#)
- Charity Commission Guidance CC19 – [Charities and Reserves](#)
- Charity Commission Guidance CC8 – [Internal financial controls for charities](#)
- Companies House GP08 - [Liquidation and Insolvency](#)

Challenging funding decisions

- Southwark Compact is available at http://www.southwark.gov.uk/downloads/download/2396/southwark_compact
- The national compact is available from <http://www.compactvoice.org.uk/>
- The Compact Advocacy Programme exists to help mediate and support better outcomes for voluntary and community groups in their dealings with public bodies: <http://www.ncvo-vol.org.uk/compactadvocacy>
- The Public Law Project provides free advice and training on public law principles to all voluntary sector organisations in England that deal with public bodies: <http://www.publiclawproject.org.uk/EmpowerVolSect.html>

Be proactive rather than reactive! Always look to seek help before something goes wrong.

Other sources of support:

Insolvency - Get legal advice:

- Refer to the **Insolvency Service's** website: <https://www.gov.uk/government/organisations/insolvency-service> It is part of the government department of Business, Innovation and Skills. They have a helpline **0300 678 0015**
- **Talk to Business Debt line:** <https://www.businessdebtline.org>
- **Redundancy Payment service**, National Insurance Fund: your employees might be able to claim their redundancy money if your organisation is legally insolvent. See http://www.direct.gov.uk/en/Employment/Employees/Pay/DG_178525 or contact their helpline: **08451450004**

Free legal advice

The following site provides pro-bono legal advice to charities:

- **I-probono:** <http://www.i-probono.com/>