Community Southwark

Ten Top Tips for your Finance Strategy

A good finance strategy combines risk management with addresses cash flow, pricing, financial controls, holding reserves and maximising returns from all their assets. It should also contain the Financial and governance controls to ensure that everyone understands it, and their role in taking it forward.

The finance strategy should not be left to the Treasurer or finance staff – finance is the responsibility of all Trustees, and a finance strategy should be integral to the organisational strategy.

1. Work out the purpose of your activities

The first step towards establishing a financial strategy is to work out the purpose of each activity carried out by the organisation, and whether its financial aim is to:

- Make a profit (eg a fundraising event, or social business)
- Break-even (eg projects restricted by grants)
- Subsidise (important activities that deliver the organisation's aims, but have to be funded by discretionary spending from donations or reserves).

This will help to determine attitudes towards risk, a pricing policy and the level of investment that is appropriate for the various activities.

2. Know your Business Model

It's also important for organisations to fully understand their current business model – in other words, the way demand for services and funding for them comes together. Although an organisation may make assumptions about the needs of its beneficiaries and how their services should be funded, in reality, their priorities may be changing in line with the economic environment. So, if a service is seen as 'icing on the cake' it may be dropped as funding is prioritised for essential services. Or, the needs of beneficiaries may be increasing and so charities need to come up with creative ways of meeting them. Reassessing the business model will help organisations to develop an appropriate pricing policy and decide what the financial aim of each of their activities is.

3. Invest in new activities

If there is an appetite or need for new services, these will need investment. Staff will need to spend time developing a new service and building new relationships and funding may be provided in arrears or be dependent on results. For each new activity, a clear business plan is needed to show the profitability in the first few years, as well as the projected cash flow.

4. Plan a range of different income streams

Having a range of different activities with different financial aims and priorities helps to manage risk, but the balance needs to be right. New activities should be launched at different times. The majority of business failures are a result of cash flow problems due to over-trading, so pacing change and ensuring the change is funded is very important.

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5. 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.

6. 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.

7. Take stock of your assets

Charities often have a traditional view of assets as just bricks and mortar or equipment, but they may have other, unseen assets. These are important to consider in the event of a financial crisis or as a potential source of income ie hiring out of a hall or equipment etc. Another asset could be that the charity has developed a unique approach to handling a particular problem or client group, which could be converted into a stream of funding.

8. Test your new strategy

One way to test the robustness of plans and financial forecasts is to consider the level of uncertainty in them. This also helps to identify potential trigger points and when action may be needed. What is the relationship between income and expenditure? What are the key drivers? What impact could the external environment have on both costs and income?

Different types of income will need slightly different techniques for forecasting, but it should be possible to group income into categories of confirmed, probably, possible and uncertain. Once the format for this is established, the degree of certainty can be varied to test the impact on income. This can help organisations establish critical points to watch for as early warning signs.

Once a framework for preparing different versions of your financial plans is set up, it can be used to look at different scenarios and consider the consequences. For example, several versions of the budget can be prepared to show the impact of reduced levels of activity, reduced levels of income or ceasing certain activities.

9. Establish a strategy for reserves

If risk is managed well, charities should not need high levels of reserves. Working capital is needed, along with funding for development and investment, but many unspecified risks are now being managed through the financial strategy. It is still essential to go through the process of setting a level though – see our fact sheet on How to Set a Reserves Policy.

10. Financial Controls

All members of a board have financial responsibilities and should not rely solely on their Treasurer or Finance officer. Financial Controls are internal checks and procedures that help to reduce the risk of losses through theft and fraud, bad decisions, human error, breaches of controls, management override of controls and unforeseeable circumstances.

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They are also a way to ensure all the information required for the financial strategy is obtained, that it is clear who compiles it and clarifies the decision making process. Financial controls will includ mechanisms for budgetary control; cash flow forecasts, production of monthly income and expenditure accounts, and adherence to annual reporting requirements.

Resources

- 'Beyond Reserves': Charity Finance Group

- **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 organisation's finances or any other issues facing your organisation, please contact the Development Team at Community Southwark: development@communitysouthwark.org.uk or 020 7358 7020.

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