

Tough times are coming – what shall we do?

(a short guide for those managing the finances in public benefit organisations.)

This morning I've just heard about Shell and BP making £billions in profits last year. I'm sure the shareholders are happy and will use it wisely, but it's not quite the same in our sector. Our goal is to serve others, not to make financial gains for our owners. When demand for our services increases, we don't raise the prices. Instead, we hope that those providing our income (public, government, grant givers) can respond and increase the support to us so that we in turn can meet the demands we face. Certainly, in Covid times, many organisations have received increased funding, but the tide is turning.

It happens every time there is a national crisis. Public funding is under severe pressure and a year or so down the line, the charities and other public benefit organisations see their funding reduced, despite the fact that society needs us more than ever because of the crisis!

So, what do we do? How do we manage our finances during the challenges that lie ahead? I'm afraid this paper can't give you more money, but it may give you some ideas to help you through.

1. Are your accounting records up to date and in order?

I know CA Plus bang on about this all the time, but honestly, if your accounting records are not up to date and tidy then you may as well just keep your eyes shut and your fingers crossed and hope the cash doesn't just run out.

You must have your records reconciled to the bank on time every month and you must keep track of the funds you have – especially any restricted funds. You can't make good financial decisions if you do not have good financial information.

Assuming you can say "yes" to point 1, you can now read on.....

**2. What is your reserves policy and where are you in relation to that position?
what's your financial objective?**

Every organisation needs reserves. In simple terms this is cash you hold at the bank that is not ringfenced or restricted for a particular purpose. Technically, the definition is more complex, but we don't need to get into that here.

You need reserves in case your income is late, or lower than planned, or if your spending is suddenly higher than expected. Reserves can also help you fund activity before the income kicks in.

You should have a target for your reserves. Some set a number, some set a percentage like 25% of annual expenditure. There are no rules here, just common sense and reasonableness.

At any time, including right now, you should know where you are in relation to that target. As you plan for the months ahead you need to know if you can dip into reserves or not.

3. Have you prepared a budget for the year ahead?

A budget is the cornerstone of the financial control of your organisation. Without it – your Trustees or board members are not in control. The budget is simply your organisation’s plans expressed in money. Your Board should be the ones who agree the plan – the activities you want to do in the future. The budget is where you work out how much it will cost you to do this activity, and how you are going to pay for it. Once agreed, it sets the limits on those spending the money and forms the basis of the reporting to board on your actual activity.

One thing to watch out for in tough times is mission creep – it can be tempting to do new activities just because there is money available. I might see a funding opportunity to work with refugees, but that’s not what CA Plus exists to do – there are others far better suited to this work.

[Our website has some neat budgeting tools here which are free to download](#), and we are doing a webinar in March 2022 to explain how they work. Just visit our homepage or [click here to register](#)

4. Do you need to do a cash flow?

If you are skint, or if you are financed by lots of short-term projects, then you might need to do a cash flow. This is where you plan ahead looking at the actual timing of the financial activity, money coming in and out.

[Once again, our website has some neat cash flow tools here which are free to download.](#)

5. Let’s review our spending

A friend of mine works for a large bank. He’s been told to reduce costs. That means “make people redundant”. The goal there is not about service delivery - it’s about maintaining the share price. I’m glad I don’t work there.

Sometimes, if the grants are reducing, the knee jerk reaction is to reduce our costs. Given that staff costs are usually the highest element in this, that can mean staff reductions. But remember the whole point of our organisations is to serve others, reducing our staff reduces our ability to meet this objective. It really should be the last resort.

Are there other costs that you can look at – do you still print documents – why not print to pdf instead? Our own staff travel costs at CA Plus have fallen by about £4,000 in recent years as we do more online.

6. What about Income

By far the most challenging aspect of the income in our organisations is that usually we can’t control it. For those relying on grants, we rely on the funds being available and the decisions of others. We might be the best organisation in the world at what we do, but the grants may not come through, and when they do, they might only be for a short period.

I’ve long argued that you wouldn’t fund a school or a hospital for 3 years so why is it OK to fund a CAB or a Refuge for 3 years when everyone knows they will still be needed after that, but that’s a subject for another paper. We are used to living with uncertainty, and for many of us, we face cuts now.

Before you reduce spending, can you replace the funding. Can you fundraise? Do you have a pool of people who would give you £5 a month - even gift aided? Have you ever asked for this kind of income – it is the best after all? Can you earn fees for what you do? Your beneficiaries may not be able to pay but maybe someone else will. I recall one charity used to put leaflets in a hospital for free. Then they discovered that the hospital would pay them for the leaflets. This may involve a bit of enterprise, thinking of new things, taking a bit more control.

7. Back to the budget and Mr Micawber

To misquote Dicken's Mr Micawber "Income £20, expenditure £19, result happiness; income £20, expenditure £21, result misery" – unless this represents a planned use of those reserves that you built up!

Assuming you've got a budget, you might want to have a few versions of it. If done in excel, they are perfectly suited to do some scenario planning. You can quickly see the financial impact of a change in grants, or fundraising, or salaries etc. You may also flag or colour code some items of income that are more uncertain. There is little point in CA Plus agreeing a balanced budget if it includes a £20,000 fundraising target from my busking sessions in the market square!

One further thought – hibernation. Reductions in income may be short term, but if the reserves are not sufficient to carry us through it might be possible to just bunker down for a while, scale back our activities. That's not easy if you have paid staff, but for some that might be an alternative to closure.

The budget, perhaps together with a cash flow, should help reveal your options and of course, they can also give you a timescale for when decisions need to be made.

Finally, I want to share with you what CA Plus is doing right now.

We are very fortunate to have received support from both Nottingham City and Nottinghamshire County Councils for nearly 30 years since we formed. In the early days almost all our income was from these grants. Now they represent about 15% of our income. Way back when we started, I realised the grants were not going to last forever and that if we just relied on these we would never grow to meet the demand. So, we started things like the payroll service and as the grants reduced, we actually expanded, and began to take more control of our finances.

For the year ahead, we know that our funding from one is reducing by 25% from April and with the other we await a decision in a few weeks' time. We also know that demand is increasing. Last year we took on over 40 new clients and there is every indication that this trend will continue. We have reviewed all our costs, we have reviewed all our charges and we hope most will remain the same, but if we need to increase any we hope this will be well below the current inflation levels. In short, as one source of income falls (our core grants) we increase our income from other sources as we continue to grow to meet the demand for what we do. We will probably recruit again in the summer. After a few years though, your arms do get a bit tired with all the juggling!

Good luck all.

John O'Brien, CEO of CA Plus

www.caplus.org.uk