Charity Finance for Trustees; An overview

Financial Resilience training delivered on behalf of DeVA (Devon Voluntary Action)
NDVS commissioning the work on behalf of DeVA

Liz Pepler MIAB FRSA | 29 November 2022

Embrace Finance
Building confident charities

We work with small and medium organisations with big ambitions

How to stop worrying and learn to love finance

Embrace Finance is a non-profit organisation working with charities and social enterprises to build financial sustainability by building financial confidence

- Liz Pepler MIAB FRSA
- Director, Embrace Finance
- Charity finance and governance specialist
- Treasurer Trustee, Association of Chairs
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DeVA Financial Resilience Support Autumn 22

How to budget in uncertain times	04 Oct 22	10-11.30
Costing 101; from unit cost to full cost recovery	11 Oct 22	1-2.30
Gift aid; how to claim and what to claim	13 Oct 22	2-3.30
Bookkeeping; Keeping on top of the numbers	18 Oct 22	2-3.30
Finance Q and A	21 Oct 22	10-11
Financial controls; managing operational financial risk	3 Nov 22	10-11.30
Finance Q and A	3 Nov 22	10-11
Management accounting; Finding the stories behind the numbers	8 Nov 22	10-11.30
Annual Accounts and Independent Examinations	15 Nov 22	10-11.30
Finance Q and A	18 Nov 22	2-3
Reserves and resilience; managing strategic financial risk	23 Nov 22	9.30-11
Charity Finance for Trustees; An overview	29 Nov 22	10-11.30
Cashflow forecasting; Keeping the lights on	30 Nov 22	1-2.30
Finance Q and A	2 Dec 22	10-11
https://www.eventbrite.co.uk/o/teignbridge-cvs-7899956287		

Today

- Charity Commission CC3 |The Essential Trustee
- Charity Commission 5-minute guides | Finance
  - Protecting the money
  - Knowing the financial position
  - Keeping accurate financial records
  - Paying Trustees
  - Dealing with financial difficulties quickly
  - Filing with the Commission
- Sharing and learning together

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How confident are we?

Protecting the money	1 | 2 | 3 | 4 | 5 .....
Knowing the financial position	1 | 2 | 3 | 4 | 5 .....
Keeping accurate financial records	1 | 2 | 3 | 4 | 5 .....
Paying Trustees	1 | 2 | 3 | 4 | 5 .....
Dealing with financial difficulties quickly	1 | 2 | 3 | 4 | 5 .....
Filing with the Commission	1 | 2 | 3 | 4 | 5 .....

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Limitations

- This is but a snapshot
- It is not professional advice
- Always refer to the primary guidance
- Always seek appropriate professional advice where needed

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Quick temperature check

What is your confidence level with your fiduciary duties?

- Nonexistent
- Low
- Some
- High

What are your specific queries?

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Charity Finance
Finance

Bankruptcy happens gradually and then suddenly

Ernest Hemingway

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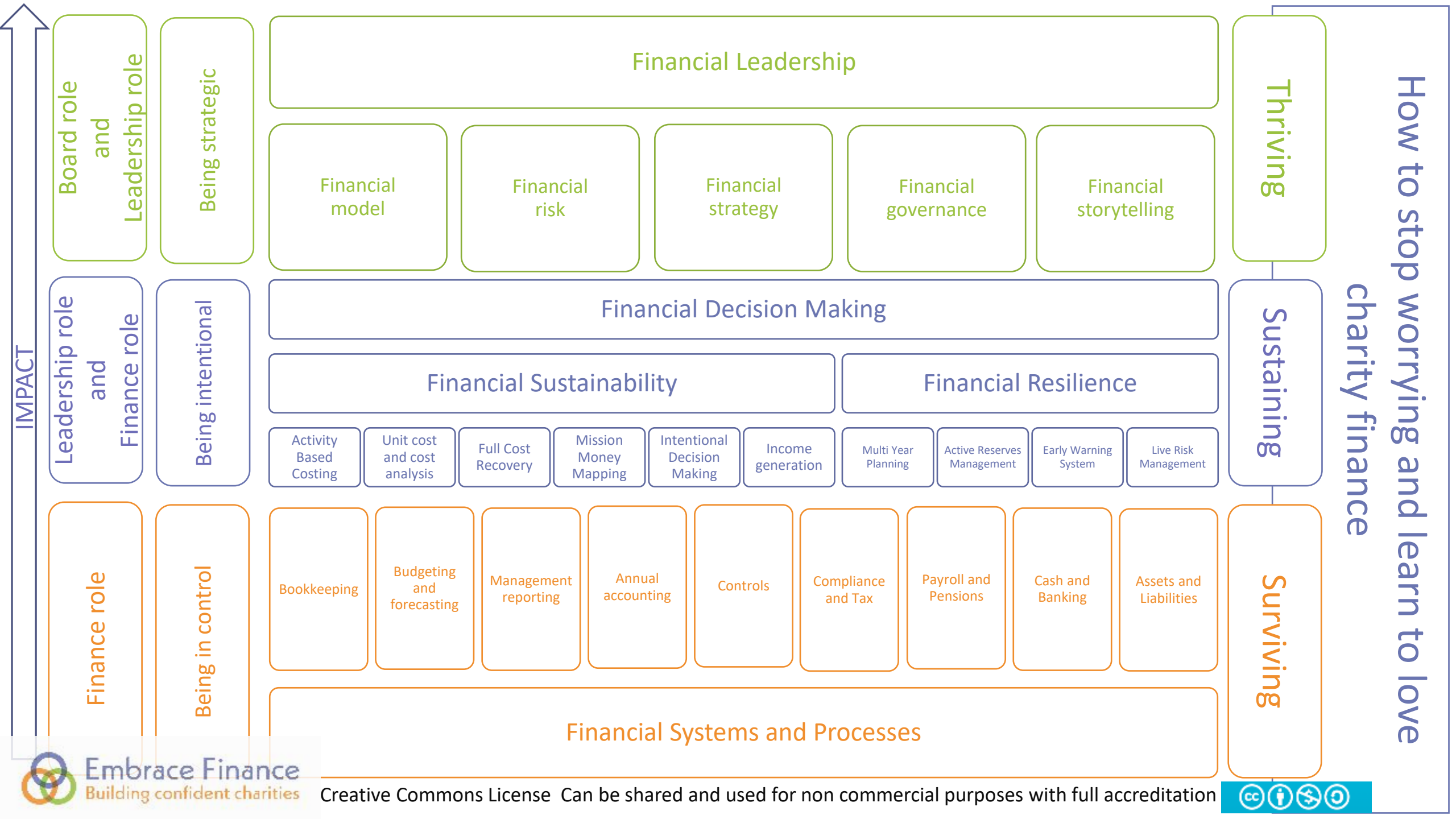

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Trustee’s fiduciary duties

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Trustee’s fiduciary duties

‘Trustees have independent control over, and legal responsibility for, a charity’s management and administration’.

https://www.gov.uk/government/publications/the-essential-trustee-what-you-need-to-know-cc3/the-essential-trustee-what-you-need-to-know-what-you-need-to-do

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They can …

- Often delegate day to day activities to particular trustees (such as the chair), volunteers or staff
- Many charities also have power to delegate decision making to sub-committees or senior staff
- Delegation can help trustees to govern more effectively,
- but they cannot delegate their overall responsibility
- Trustees always remain collectively responsible for all decisions that are made and actions that are taken with their authority

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The essential trustee: what you need to know, what you need to do - GOV.UK (www.gov.uk)

Where to start | Trustee's fiduciary duties

Charity Commission 5-minute guides

1. Protect your charity's money
2. Know your charity's financial position
3. Keep accurate financial records
4. Manage expenses and payments to trustees
5. Deal with financial problems quickly
6. Filing with the Commission

https://www.gov.uk/guidance/managing-charity-finances

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01 | Protecting the money

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01 | Protect your charity's money

Trustees must take steps to make sure that money is safe, properly used and accounted for.

Even if your charity has an expert to manage its finances, you are still responsible for overseeing your charity's money.

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01 | Protect your charity's money

Protect your charity's money

Only spend money on what is allowed by the charity's governing document and policies … and make sure that money coming into the charity is:

- secure and recorded
- only spent on your charitable purposes
- at less risk of theft, fraud or cyber crime

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01| Protect your charity's money

Managing risks

Use the Internal financial controls checklist to identify risks and keep a list of them and how they are managed, review regularly

Prioritise development points which are legal requirements

Report on the risk mitigation in the annual report

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02 | Know your charity’s financial position

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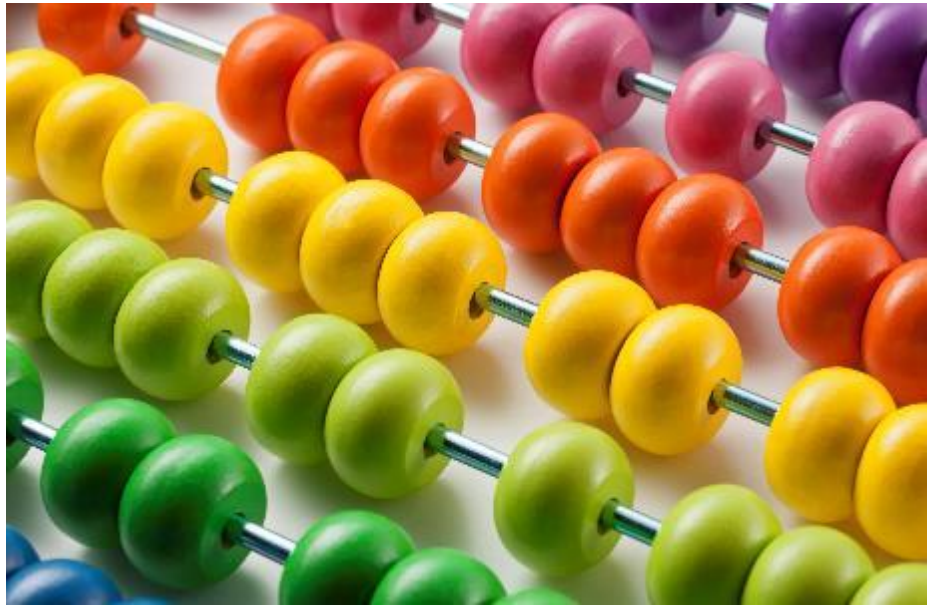
02 | Know your charity's financial position

- Set a budget
- Raise funds – and know the rules
- Monitor performance
- Set a reserves policy for funds not yet spent



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02 | Set a budget and follow it

Your charity should have a budget.

You should know how much your charity:

- currently has
- plans to raise
- plans to spend each year

Identify problems in good time and agree what to do about them.

Budget for different scenarios and consider the what ifs.

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02 | Raise funds

Get the funds you need

Your charity may get the funds it needs in different ways. This can include:

- fundraising
- selling goods and services
- making investments

Make sure you know what the rules are for getting funds in these ways and that your charity complies with them.

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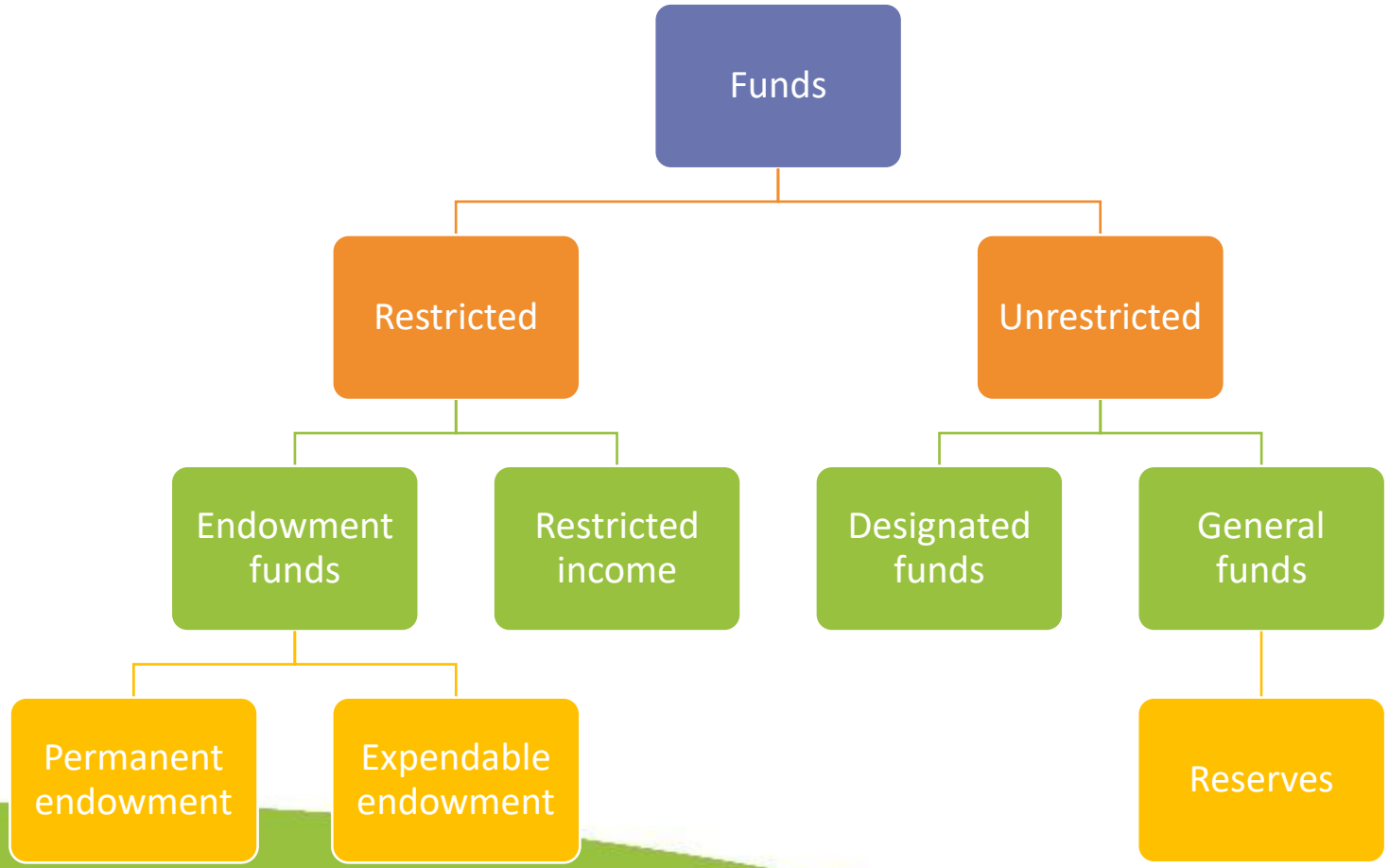
02 | Raise funds



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02 | Monitor performance

	2021												
INCOME	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Total**
													0
Grants		10,000				10,000				10,000			**30,000**
Donations			1,000				1,000				1,000		**3,000**
Events					1,000				1,000				**2,000**
													0
													0
TOTAL	**0**	**10,000**	**1,000**	**0**	**1,000**	**10,000**	**1,000**	**0**	**1,000**	**10,000**	**1,000**	**0**	**35,000**
EXPENDITURE													
													0
													0
Salaries		2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	**22,000**
Project costs		500	500	500	500	500	500	500	500	500	500	500	**5,500**
Accountancy fees												500	**500**
													0
													0
TOTAL	**0**	**2,500**	**2,500**	**2,500**	**2,500**	**2,500**	**2,500**	**2,500**	**2,500**	**2,500**	**2,500**	**3,000**	**28,000**
Surplus/(Deficit)	0	7,500	-1,500	-2,500	-1,500	7,500	-1,500	-2,500	-1,500	7,500	-1,500	-3,000	7,000
Opening balance		0	7,500	6,000	3,500	2,000	9,500	8,000	5,500	4,000	11,500	10,000	
Closing balance	**0**	**7,500**	**6,000**	**3,500**	**2,000**	**9,500**	**8,000**	**5,500**	**4,000**	**11,500**	**10,000**	**7,000**	
Minimum cash requirement		4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	
Over/- Under		3,500	2,000	-500	-2,000	5,500	4,000	1,500	0	7,500	6,000	3,000	

A charity

Management accounts for the x months to DD/MM/YEAR

Registered charity number | Financial Year MM to MM

	Tab 9			Tab 9			Tab 9			Tab 4			Tab 5		
	Total Restricted			Total Unrestricted			TOTAL			YE FORECAST			NEXT YEAR FORECAST		
	Actual YTD	Budget YTD	over Budget	Actual YTD	Budget YTD	over Budget	Actual YTD	Budget YTD	over Budget	RD	UnRd	Total	Rd	UnRd	Total
Income															
Total Grants	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Donations	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Earned income	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Interest	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Expenses															
Total Building costs	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Governance and	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Office costs	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Project costs	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Staffing costs	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Expenses	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Funds brought forward from last year															
Funds carried foward to next year															

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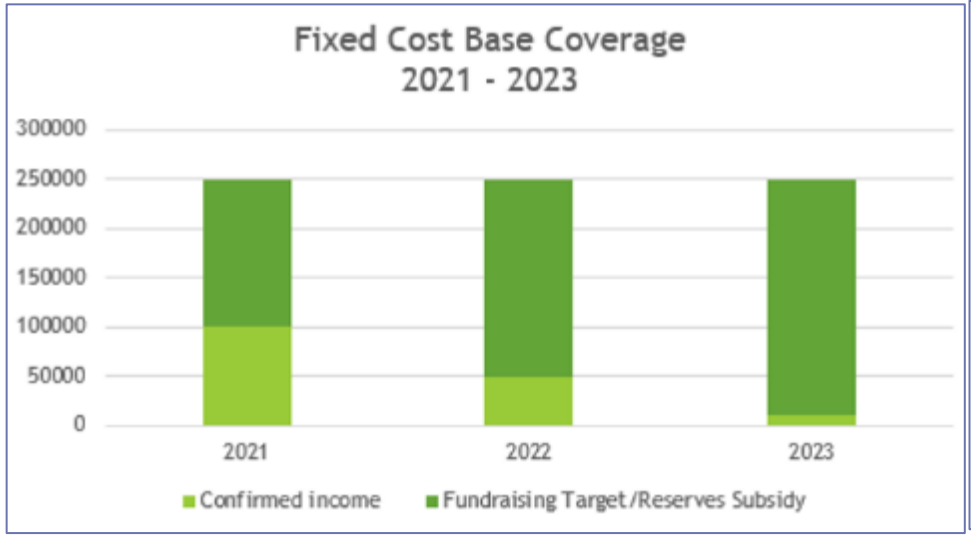

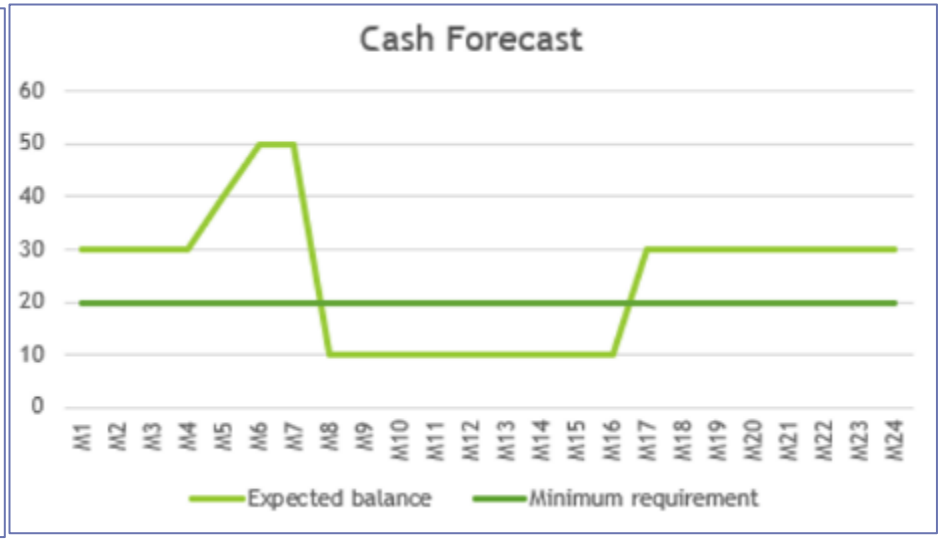

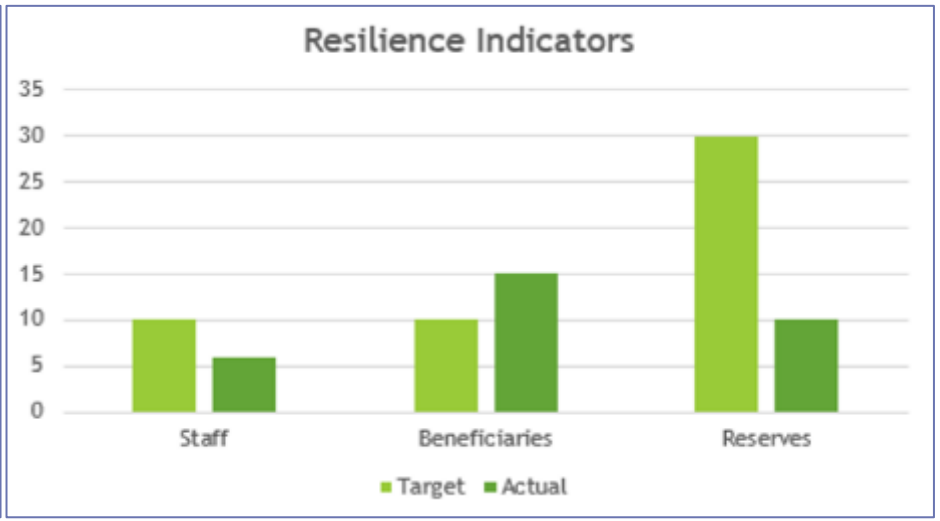

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02 | Set a reserves policy

If your charity does not spend all its income

Set a reserves policy. This explains whether your charity is aiming to keep a reserve of unspent income, what it will be used for and why this is reasonable

Explain the policy in the annual report and says how much money (if any) is kept in reserve, what it is for and when the charity will use it

If you want more information, see our guidance on how to set a reserves policy

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02 | Set a reserves policy

Reserves are that part of a charity's unrestricted funds which are not held in fixed assets for charitable use, designated funds

Charites are here to spend

We can keep some UNRESTRICTED FUNDS back for a rainy day (and to reach sunlit uplands ahead)

But we need to be intentional and adopt a reserves policy

Our policy needs to state certain things including …

… how much we have got in our reserves …

… how much we aim to have (we need to take a risk based approach)

… a range can be helpful with a minimum level (our sunset budget) and a maximum level

And how we aim to get from A to B if they are not the same

We need to be transparent and accountable and include our formal policy in our year end accounts

There are regulations relating to reserves

CC19

FILO!!!

Source https://www.gov.uk/government/publications/charities-and-reserves-cc19/charities-and-reserves#understanding-reserves-and-the-need-for-a-reserves-policy

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02 | Example of a charity reserves policy

- The Management Committee has examined the charity's requirements for reserves in light of the main risks to the organisation.
- It has established a policy whereby the unrestricted funds not committed or invested in tangible fixed assets held by the charity should be between 3 and 6 months of the expenditure. Budgeted expenditure for 2009/10 is £550,000 and therefore the target is £137,500 to £275,000 in general funds.
- The reserves are needed to meet the working capital requirements of the charity and the Management Committee are confident that at this level they would be able to continue the current activities of the charity in the event of a significant drop in funding.
- Whilst income funds stand at £56,792 a designation of £20,000 has been set aside for the purchase of equipment for the training project and a further £22,500 funds the office equipment of the charity.
- The present level of reserves available to the charity of £14,292 therefore falls significantly short of this target level.
- Although the strategy is to continue to build reserves through planned operating surpluses, the Management Committee is well aware that it unlikely that the target range can be reached for at least five years.
- In the short term the Management Committee has also considered the extent to which existing activities and expenditure could be curtailed, should such circumstances arise.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/350985/arddacpb.pdf

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02 | Keep accurate financial records

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03 | Keep accurate financial records

Keep accurate financial records

Make sure that your charity keeps records to show all the money coming into your charity and the money it spends to help it meet its aims.

Check that your charity has adequate records to show:

- details of money received and spent by the charity – for example bank statements and minutes of any meetings where significant decisions were taken
- the charity's assets and liabilities

These records are used to prepare the accounts which you should approve.

You must ensure that your charity keeps accounting records for the appropriate period of time.

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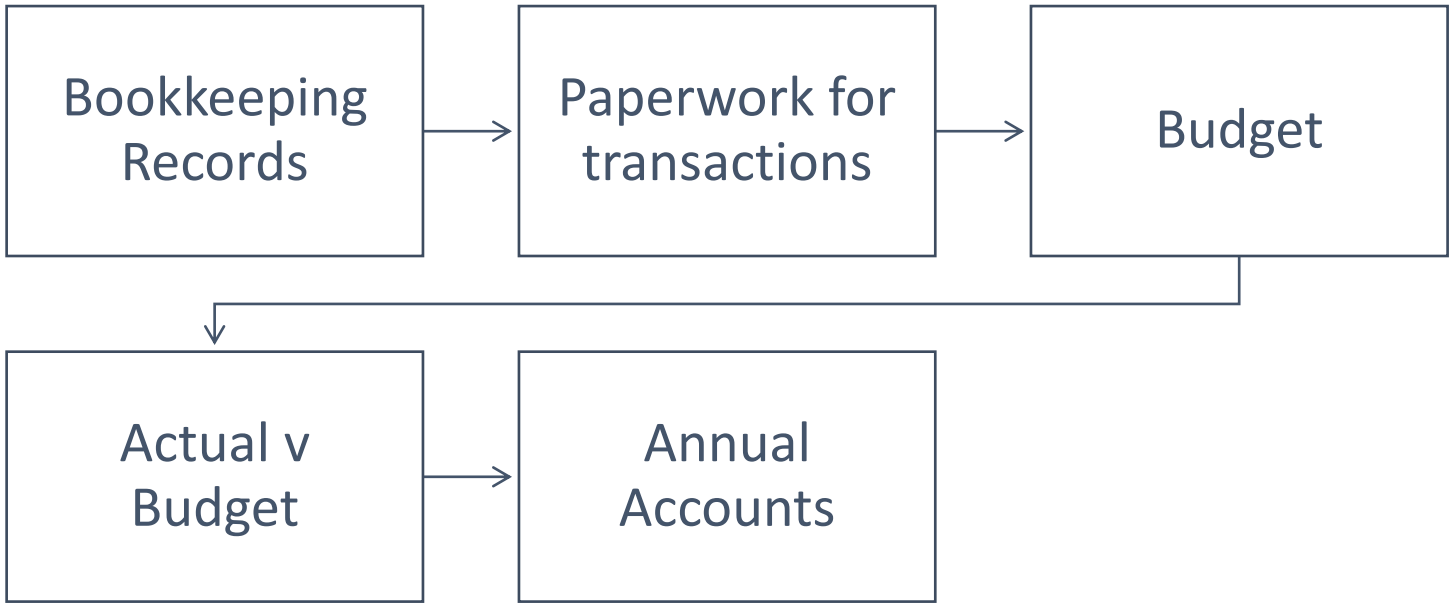
What records? At a minimum …



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03 | Manage payments to Trustees

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04 | Manage payments to trustees

All trustees can claim expenses. These are to cover out-of-pocket payments you have to make in order to carry out your duties, for example:

- travel to and from trustee meetings
- postage and telephone calls for charity work
- childcare or care of other dependents while attending meetings

Your charity should have a written policy setting out what is classed as an expense and how to claim and approve expenses.

As a trustee you cannot receive any other payments or benefits from your charity unless the charity's governing document allows it, or you have a specific authority for it.

Check the rules before you make any payments.

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05 | Deal with financial problems quickly

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05 | Deal with financial problems quickly

Ensure that you have enough money to settle bills as they fall due.

Act quickly if there is a significant change in the amount of money coming into or going out from your charity.

If you think your charity may be facing insolvency, read insolvency guidance for advice on what actions you should take.

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05 | Deal with financial problems quickly

Take any expert advice as early as possible. This will help you work out what action to take. For example:

- develop alternative sources of funding or launch an emergency appeal
- borrow money from banks or stakeholders
- raise issues with any grant bodies you have received funds from
- reduce actual or planned spending
- review any charges your charity makes for facilities or services
- stop or delay doing some of your charity's activities
- merge with another charity
- close your charity

If there is a significant change in the charity's funds, you may need to report this as a serious incident.

Tell the Charity Commission if your charity closes so it can be removed from the register of charities.

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05 | Deal with financial problems quickly

Financial resilience is

- Multi year visibility
- Active reserves management
- Early warning systems
- Live risk management

Financial resilience is the ability to expand and contract with intention and integrity

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06 | Filing with the Charity Commission

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06 | What to file with the commission

1. Charity register details
2. Annual return, report and accounts
3. Dealing with serious problems and reporting them to us

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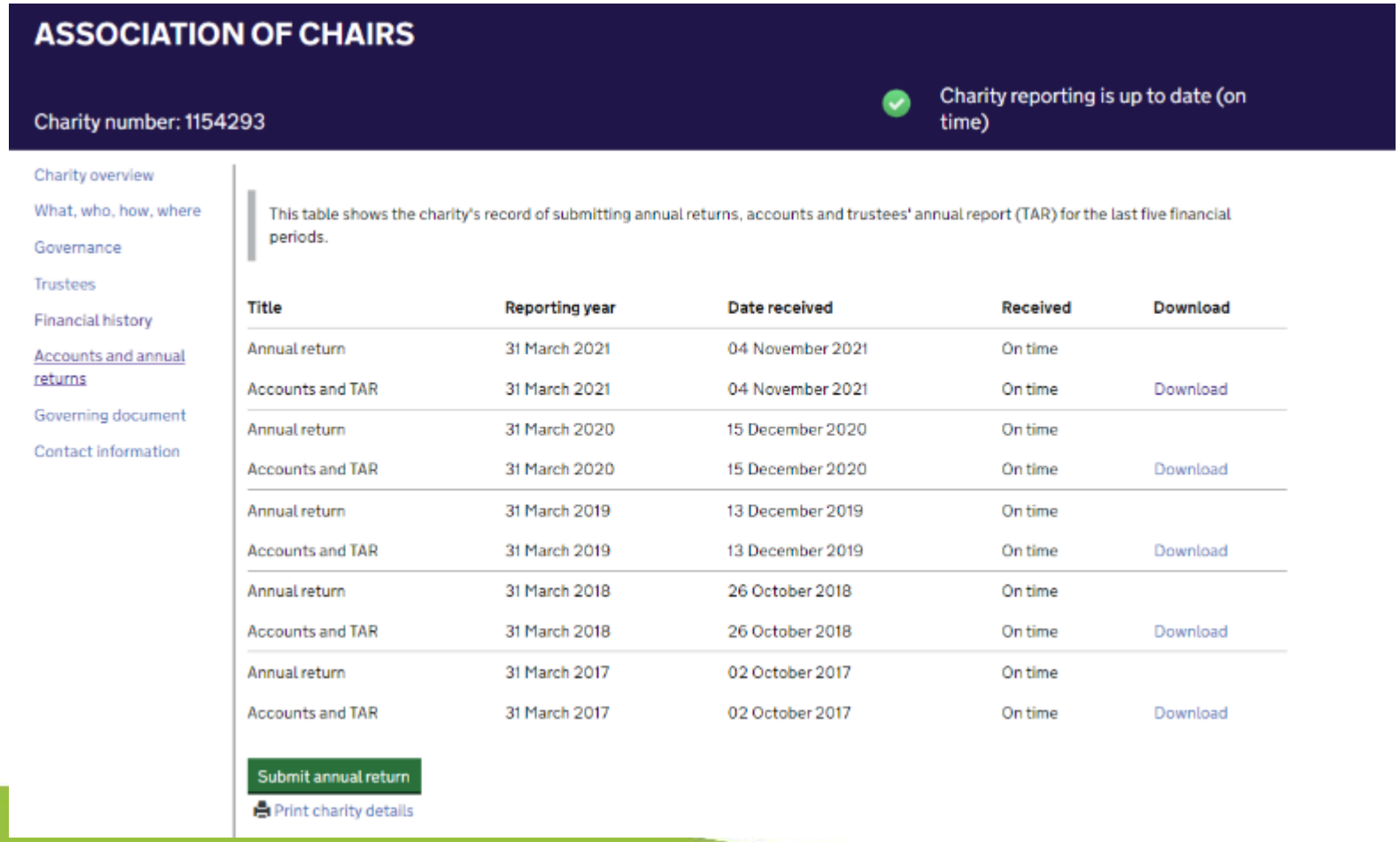
06 | What to file with the commission



ASSOCIATION OF CHAIRS

Charity number: 1154293

Charity reporting is up to date (on time)

- Charity overview
- What, who, how, where
- Governance
- Trustees
- Financial history
- Accounts and annual returns
- Governing document
- Contact information

This table shows the charity's record of submitting annual returns, accounts and trustees' annual report (TAR) for the last five financial periods.

Title	Reporting year	Date received	Received	Download
Annual return	31 March 2021	04 November 2021	On time	
Accounts and TAR	31 March 2021	04 November 2021	On time	Download
Annual return	31 March 2020	15 December 2020	On time	
Accounts and TAR	31 March 2020	15 December 2020	On time	Download
Annual return	31 March 2019	13 December 2019	On time	
Accounts and TAR	31 March 2019	13 December 2019	On time	Download
Annual return	31 March 2018	26 October 2018	On time	
Accounts and TAR	31 March 2018	26 October 2018	On time	Download
Annual return	31 March 2017	02 October 2017	On time	
Accounts and TAR	31 March 2017	02 October 2017	On time	Download

Submit annual return

Print charity details

https://www.gov.uk/find-charity-information

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06 | What accounts to prepare

Charities must:

- Prepare an annual report – all registered charities
- Prepare a set of accounts - all charities
- File accounts and annual reports with the Commission – all CIOs and registered charities with an income > £25k
- Submit an annual return to the Charity Commission – all CIOs and other regd charities with income > £10k

Accounts preparation basis

- Receipts and payments accounts - non-company charity has a gross income of £250,000 or less during the financial year.
- Accruals accounts - Non-company charities with gross income of over £250,000 | All charitable companies | Must be SORP accounts

External review

- £25k - £1m annual income – independent examination
- £1m plus annual income or total assets > £3.26m and income > £250k – audit

https://www.gov.uk/government/publications/charity-reporting-and-accounting-the-essentials-november-2016-cc15d/charity-reporting-and-accounting-the-essentials-november-2016-cc15d--2

06| What accounts to prepare

Prepare a charity's annual accounts

Find out how to prepare the right annual accounts for your charity's structure and income.

You should follow different guidance if your charity is:

- exempt - because it's not regulated by the Charity Commission
- in Scotland or Northern Ireland

Start now >

Related content

File your accounts and Company Tax Return

File your confirmation statement (annual return) with Companies House

Collection

Managing your charity guidance

https://www.gov.uk/prepare-charitys-annual-accounts

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06 | What accounts to prepare

Charity Commission Example Accounts

- https://www.gov.uk/government/publications/example-trustees-annual-reports-and-accounts-for-charities

Charity Commission Accounts Templates

- https://www.gov.uk/government/publications/charity-accounting-templates-receipts-and-payments-accounts
- https://www.gov.uk/government/publications/charity-accounting-templates-accruals-accounts-cc17-sorp-frs-102-for-charitable-companies

Charities Statement of Recommended Practice

- https://charitiessorp.org/

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These may be useful

https://www.gov.uk/government/publications/the-essential-trustee-what-you-need-to-know-cc3

https://www.gov.uk/government/collections/5-minute-guides-for-charity-trustees

https://www.embracefinance.org.uk/

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| Be in control | Be intentional | Be strategic

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Want to stay in touch?

Getting on top of the numbers and staying on top of the numbers is the only way we can build our financial sustainability.

Join us today to take your next step:

- Subscribe to our newsletter to get free insights on building financial sustainability
- Join us at our free monthly friendly finance circles, bring your pain points and leave with new friends
- Take a deeper dive and build your financial confidence with a 121 professional mentoring session
- Get rid of your unknown unknowns and book onto one of our workshops
- Not sure what you need? Contact us to arrange a discovery chat

We look forward to working with you!

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