

Financial Management One Step Beyond

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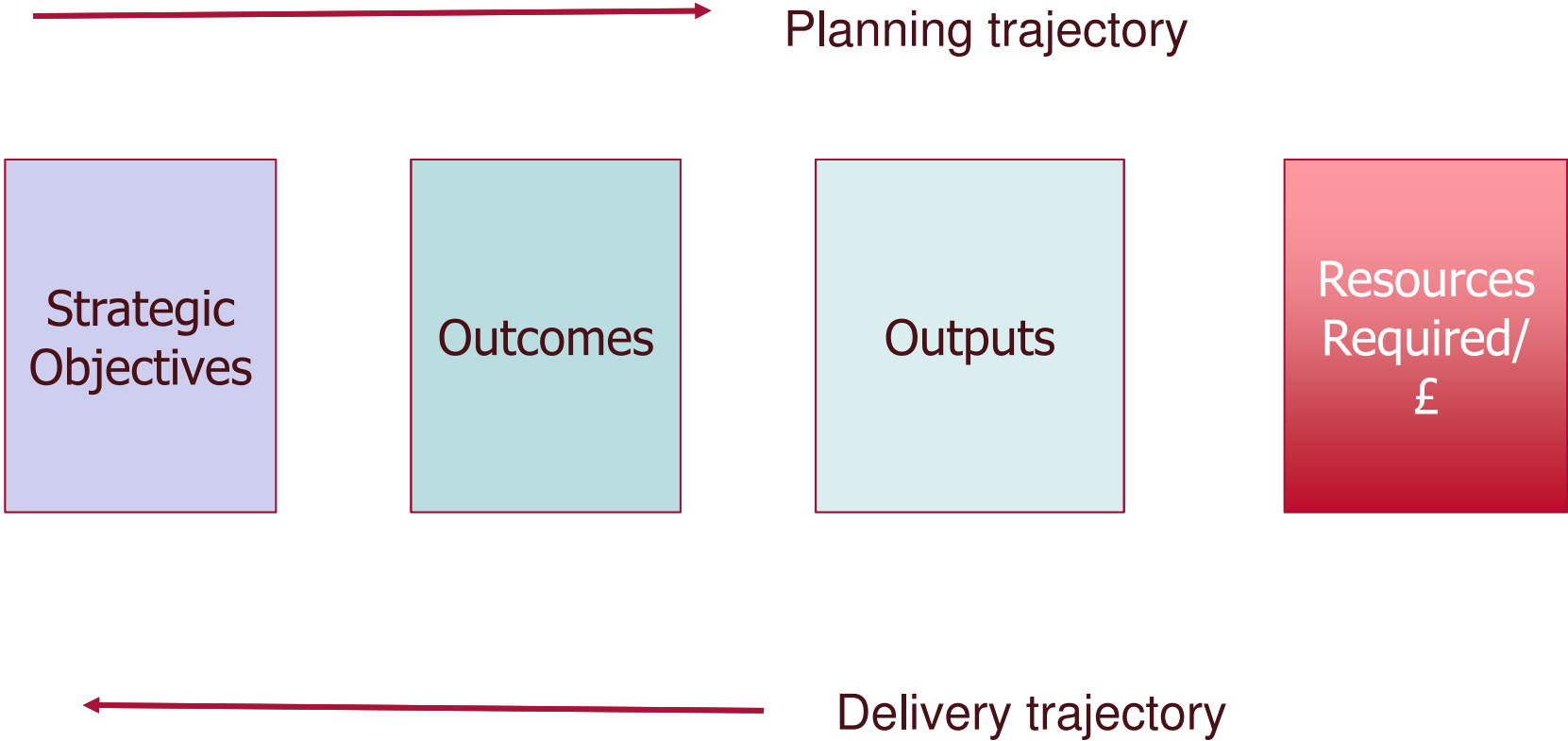


Communications & Management Tool

- Using numbers to
 - Plan
 - To understand what is going on
 - Make & support decisions
 - To communicate information



Strategic Process



Planning

- Using numbers to
 - Plan
 - To understand what is going on
 - Make & support decisions
 - To communicate information



Forecasts

- Your vision drives the change you need to make
- Create short to medium strategic objectives (mission)
- Will they deliver the desired outcomes?
- What outputs & activities required?
- What resources required to do this?
- How the resources are utilised and sourced is your Financial Forecast



Refining the forecasts

- Consider

- Demand for services
- Resource constraints
- Timing
- Trends/ seasonality/ inflation



Assumptions

- Forecasts are a tool to test and implement the assumptions

- Forecasts together with a strategic/ business plans are used to generate grant funding or investment

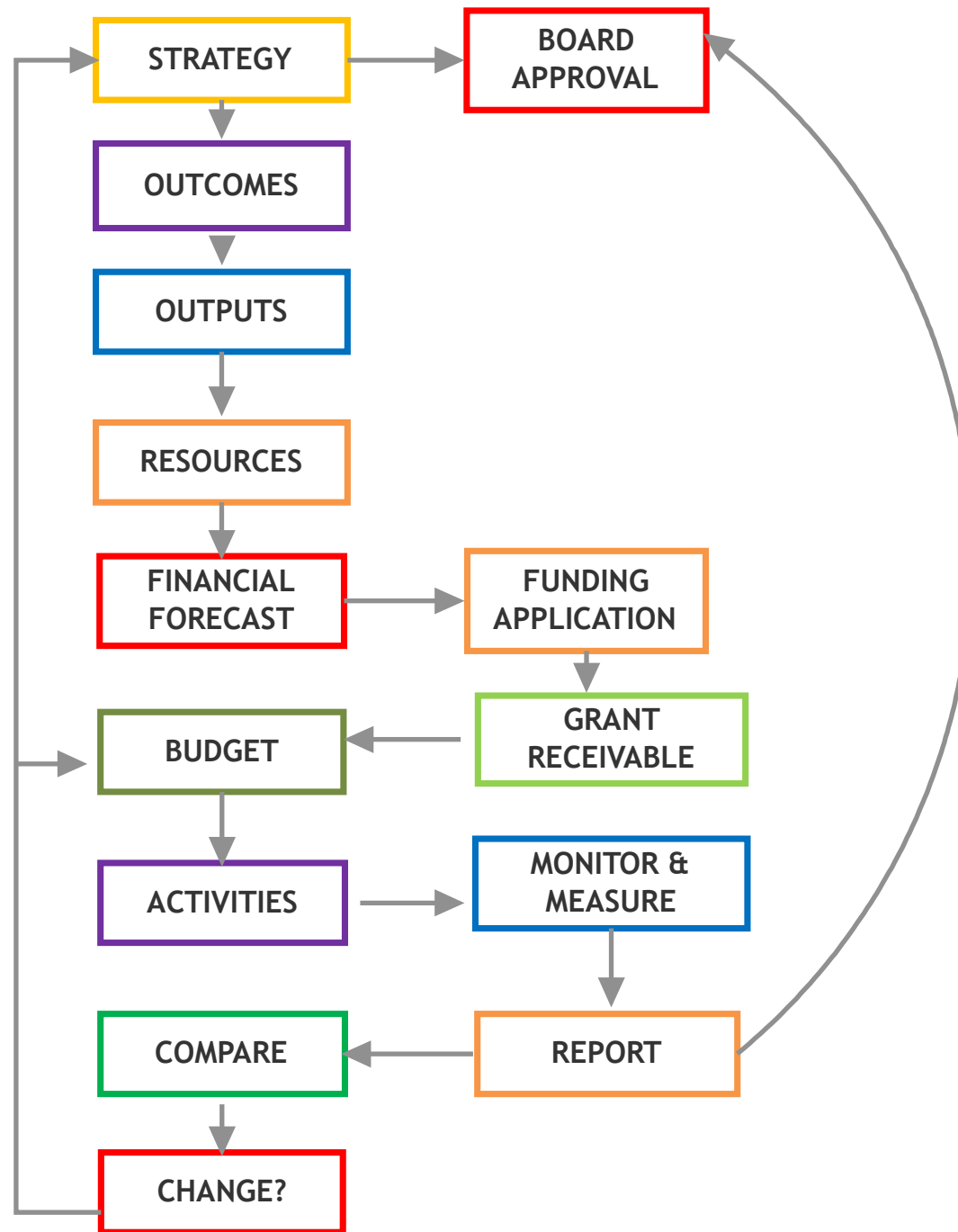


Forecast steps

	Year 1	Year 2	Year 3
Activity proposed/ interventions	100	150	300
Resource required			
Outreach staff	5	8	20
Management	1	2	4
Support staff	1	1	3
	£'000	£'000	£'000
Employment costs	150	300	400
Direct costs	50	100	200
Support and core costs	50	75	100
Total Costs	250	475	700
Funding requirement			1,425



Budget Cycle

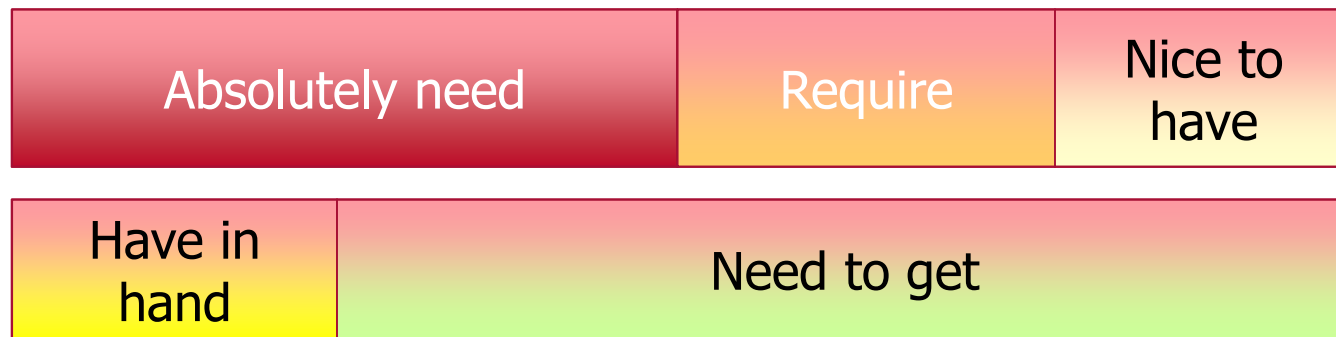


Assumptions

- With experience (historical evidence or personal experience) the accuracy of assumptions increases
- The closer to the present the more accurate the assumption
- Need to be reasonable and need to be robust when questioned
- Revenues hard to predict
- Costs easier



Income expectation



Funder	What for	Have capability/ resources	A How much	B Likelihood %	C = A x B Expectation
A					
B					
C					
Total					Value



Costs

- Easier to predict
- Lot of information available
- Predictions dependent on:
 - Market conditions
 - Understanding of resource requirements
 - Allocation and categorisation



Types of Cost

- Variable costs

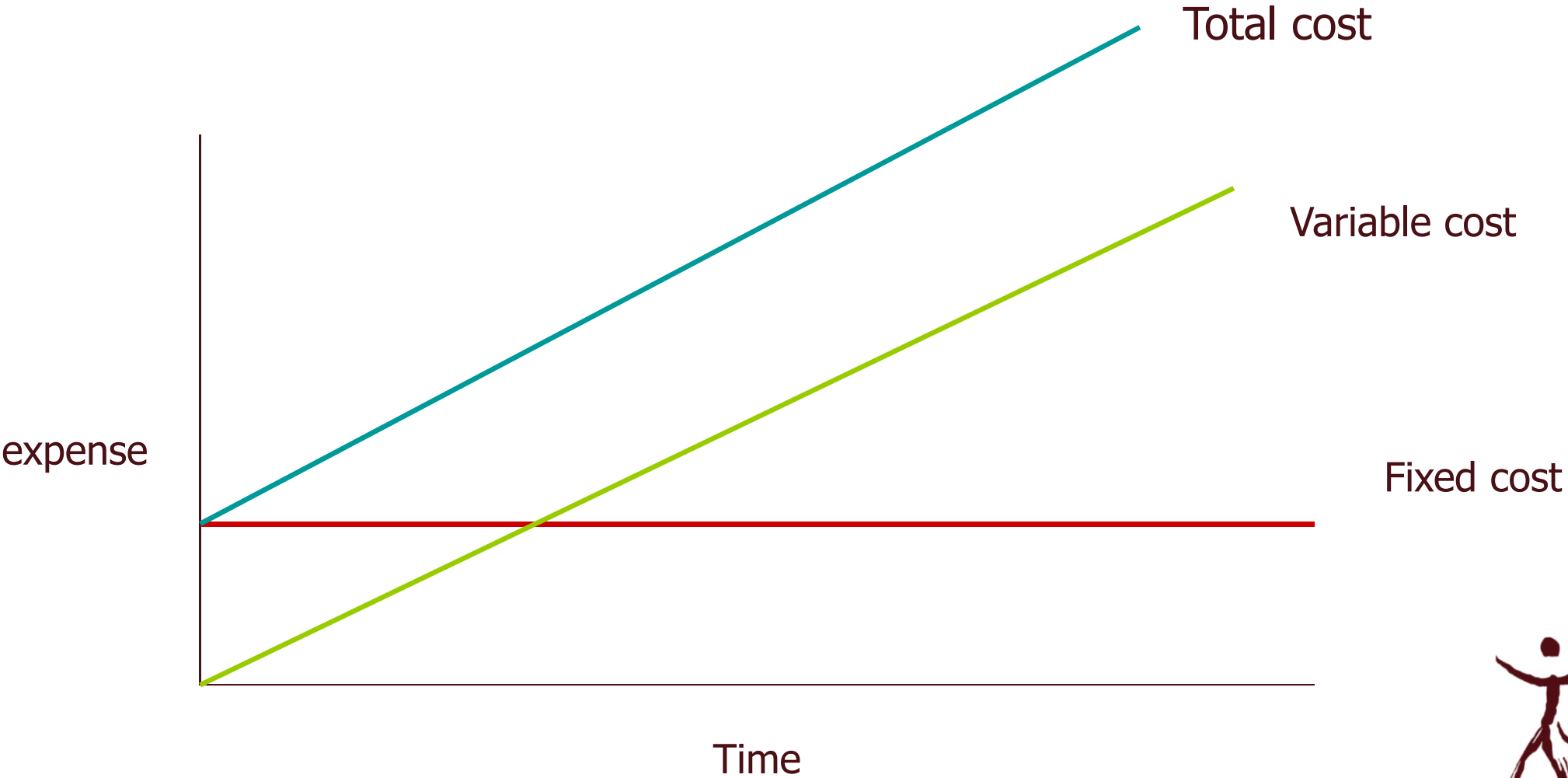
- These are costs that change with activity, so that each time something is done there is a cost associated with it

- Fixed costs

- These are costs that are incurred even where there is no activity



Types of Cost



Break Even Analysis

- Tool for checking viability of strategy delivery
- How many interventions required to cover total costs?
- Each intervention generates revenue
- Deducting variable cost from the revenue = “contribution” – towards paying fixed costs
- A certain number of interventions will result in the fixed costs being paid off – this is the “Break Even” point



Break Even Analysis - 2

- Revenue per intervention = x
- Variable cost per intervention = y
- Contribution = $x-y$
- Fixed costs/ $(x-y)$ = z (no. of interventions to break even)
- can we deliver z interventions (or more?)
- The contribution for every intervention after this is profit



Other tools – marginal cost analysis

- This is used to make decisions on whether to extend an existing activity
- Usually as the bulk of the fixed costs are already met the additional activity can be undertaken even if the contribution is now lower
- You need to know the sales and variable costs and any additional fixed costs to determine whether to increase your activity



Budgets

- This is your working document
- What you expect to undertake on a monthly basis
- The comparison between the budget and actual performance allows you to ensure you are heading in the right direction
- Done through the use of variance analysis



Variance

- Difference between prediction (Budget)
- What really happens (Actual)
- Difference (Variance)
- Explain Variance monthly

	ACTUAL	BUDGET	+ / -VE	%	EXPLAIN?
Grant/ income	98	100	-ve	2	X
Grant/ income	115	100	+ve	15	✓
Purchases	103	100	-ve	3	X
Utilities	125	100	-ve	25	✓



Budget action

- Variance analysis and any call to action dependent on
 - Comparing the right data
- If the variance is affected by the delivery quantity you need to readjust the budget – “Flex”
- This allows you to make a more informed comparison
- Then you can decide whether the strategy needs changing – incorrect basic assumption



Forecasts / Funding application

- Forecasts support strategy
- Strategy describes intended short term programme delivery – Mission
- This is the basis for creating business plans and funding applications
 - What we want to change
 - Activity to achieve this
 - Resources required
 - Call for resources

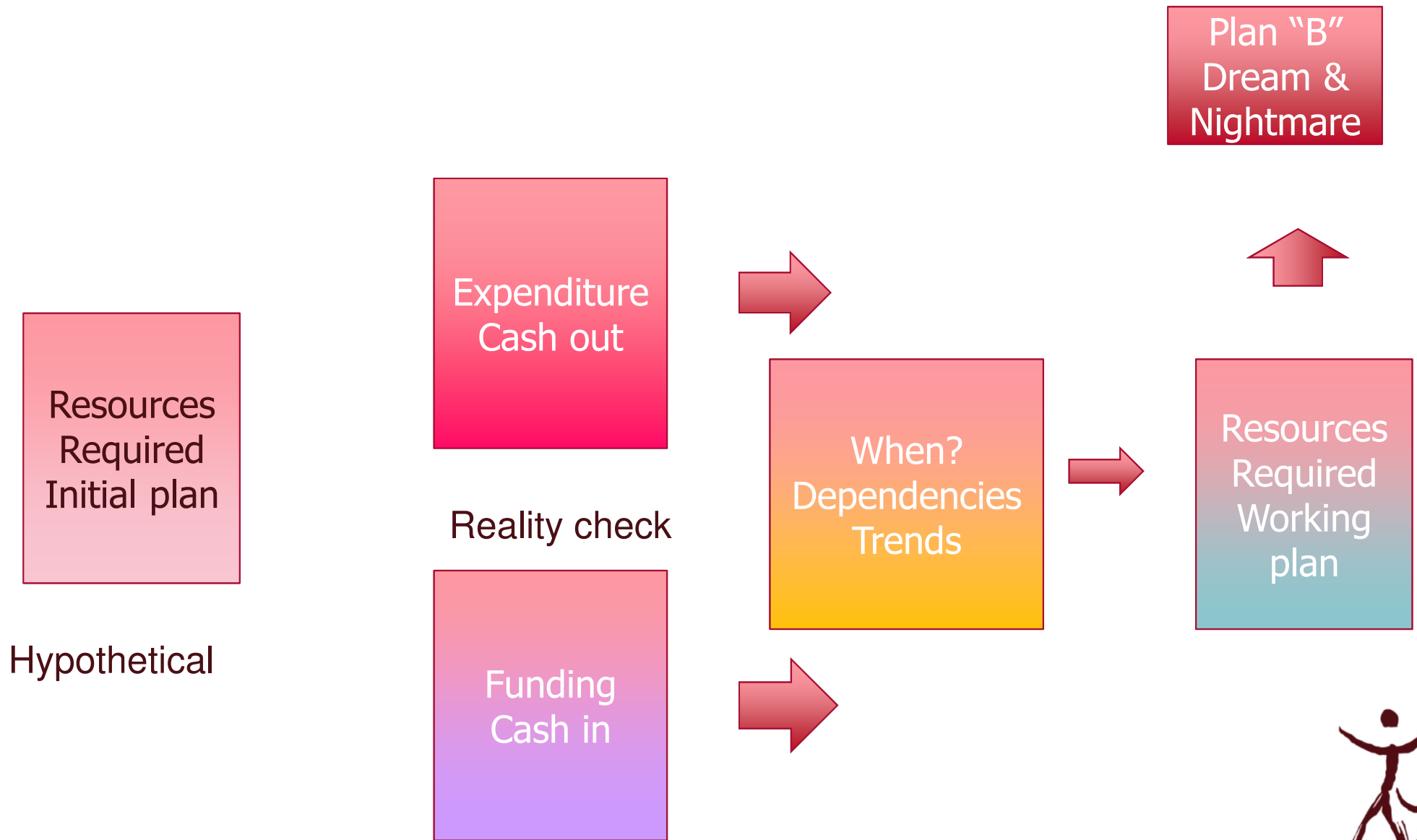


Application analysis

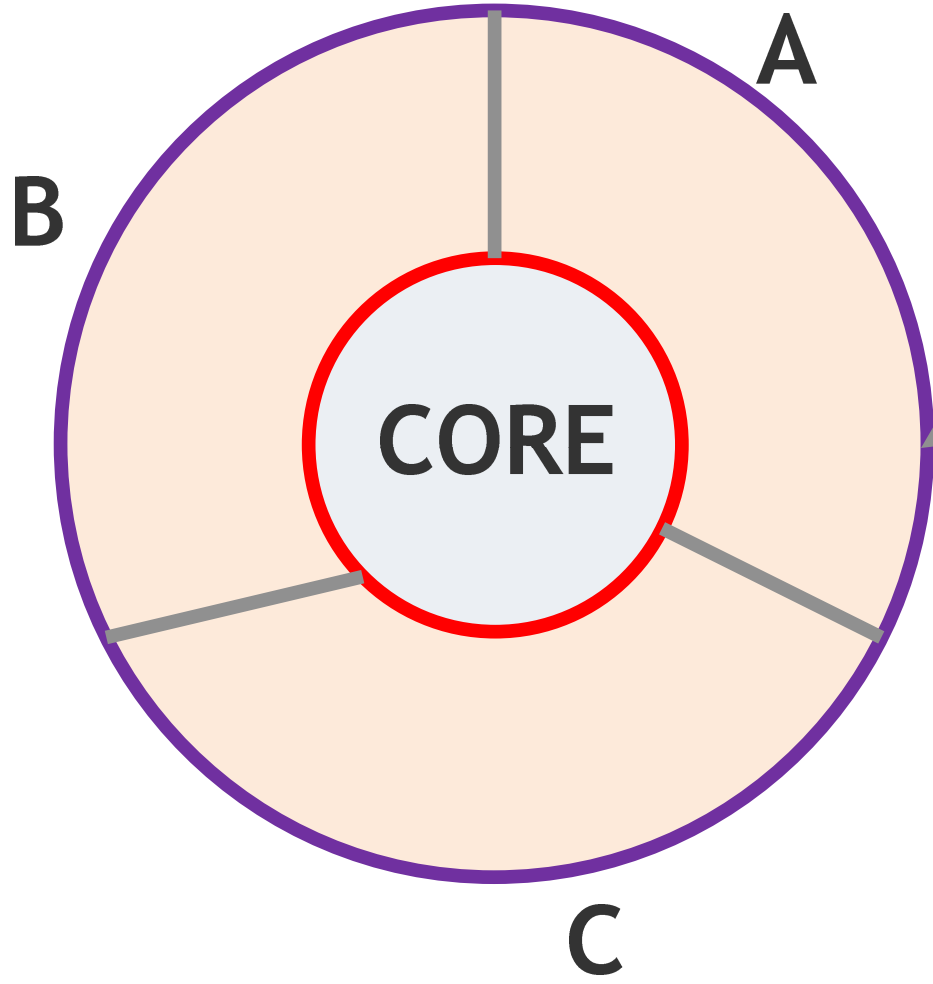
- The assumptions regarding delivery
 - Understanding of problem & solution
 - Understanding of beneficiary needs
 - What the outcomes/ impact will be
- Management credibility to deliver programme
- The numbers supporting strategy stack up
 - How will the money be utilised
 - Assumptions
 - Credible & sensible



Financial planning



Full Cost Recovery

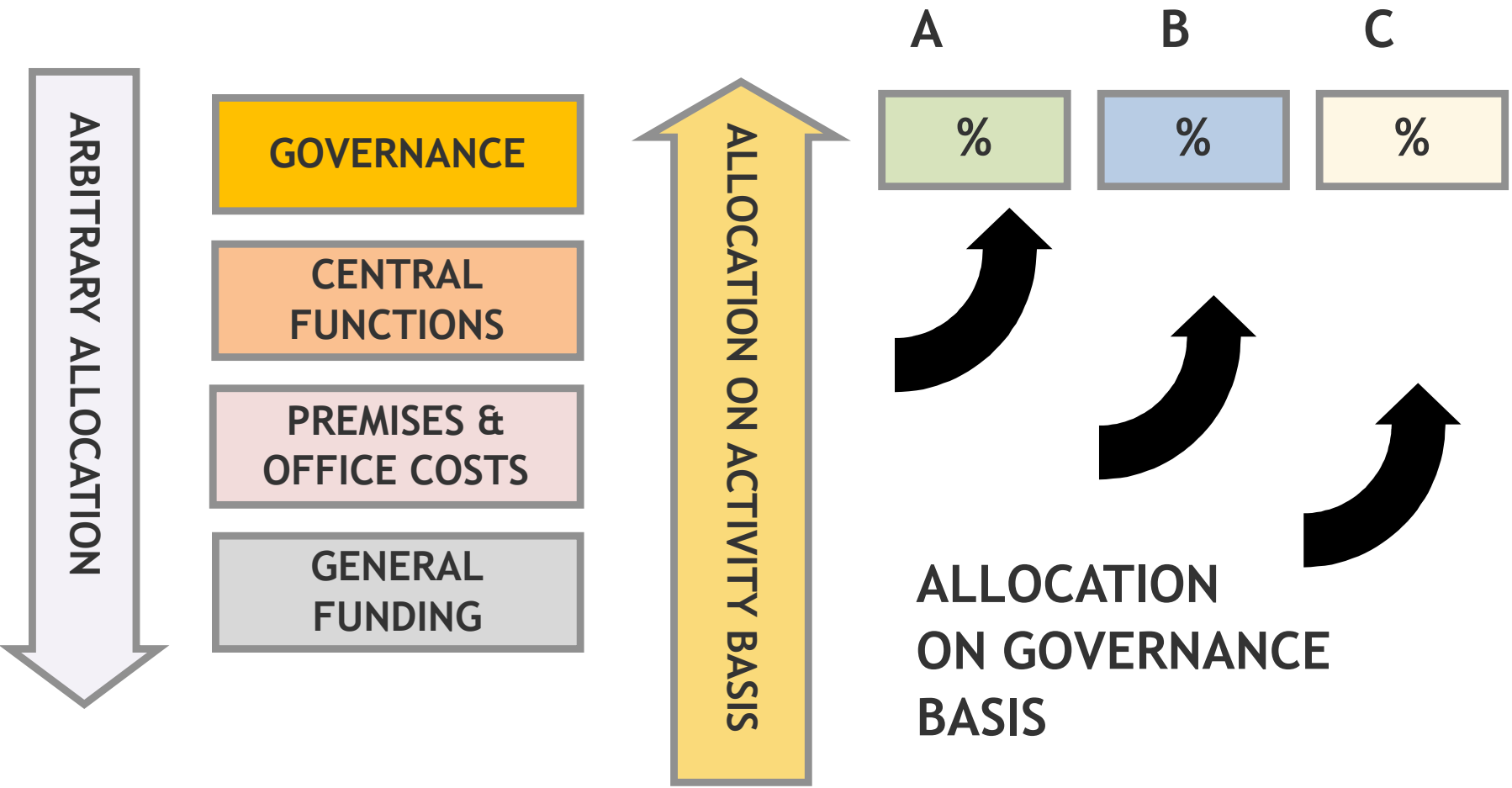


DIRECT COSTS

How are core costs to be allocated to each project



Cost Allocation



Concerns

- Arbitrary allocation results in under recovery
- Any method results in under or over recovery
- Especially when projects starts are at different times
- Should this matter?
 - Consistency of approach
 - Over recovery – offer GMT money back
 - Under recovery should be greatest concern
 - How to create unrestricted income flows and reserves




Risk – Financial considerations

Areas of Financial Risk	
Financial understanding	Financial systems
Personnel	Financial controls
Cost control	Bank management
Funding success	Cash flow management
Funding dependency	Petty cash controls
Income diversification	Salaries
Asset management	Reserves management

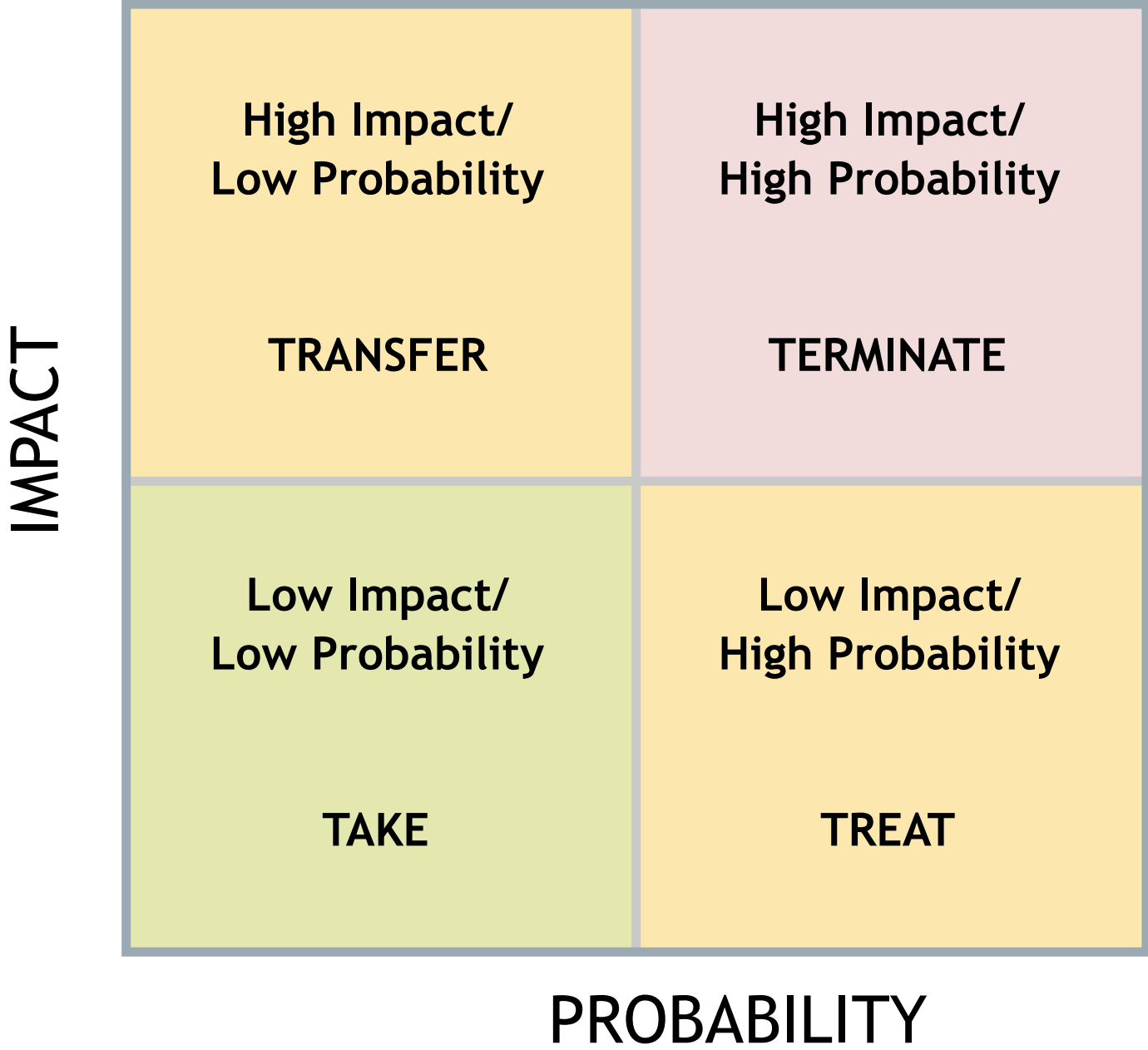


Risk analysis sample – common sense

			
When are financials presented to Board	Never/ late	Tabled	In advance
Do we all understand the financial figures presented to us?	Never	When they are explained	Always
What proportion of your income are you confident about next year?	<50%	50-75%	>75%
What proportion of income comes from 2 biggest funders?	>50%	25-50%	<25%
Are salaries ever paid from funds received for other purposes?	Yes, often	Rarely, & only for a short time	Never
Is it a struggle to get the cash to meet the month end payroll	Always	Sometimes	Rarely/ never



Risk – PI Matrix



Income & endowments

Categories	Types	What?
1. Income from Donations & Legacies	Income from donations & legacies	grants/legacies/donations (no expectation of a service in return)
	Other trading activities	Non charitable trading activities/ fundraising activities
	Income from investments	interest/divis/rent
2. Income from charitable activities	Fees or grants rec'd specifically to deliver services & activities	Grants/fees (Contractual to further charitable objects)
3. Other income	Whatever does not fit above	Unusual items e.g. sale of fixed assets



SoFA Recommended Format

Explanation	Endowment £	Restricted £	Unrestricted £	Total £	Last Year £
Sources of Income	+	+	+	+	+
Matched Expenditure		-	-	-	-
Surplus/Deficit	=	=	=	=	=
Reserves B/Fw'd	+	+	+	+	+
Reserves C/F'wd	+	=	=	=	=



Expenditure

Match type of incoming Resource	What is included
1. Expenditure on raising funds	Costs of generating donations and legacies (fundraising / publicity). Cost of goods sold. Investment management costs
2. Expenditure on charitable activities	Includes governance costs which will be a separate component of support costs
3. Other expenditure	Anything else
4. Support costs	Costs that allow other activities to be undertaken shown in the notes to the accounts for those reporting on an activity basis



Balance Sheet

- The balance sheet is a record of an organisation's net worth, this is the difference between:

- Assets

- Something the charity owns, and

- Liabilities

- What the charity owes



Balance Sheet 2

- Assets

- Fixed assets = those used on a long term continuing basis
- Current assets = those you expect to sell or convert into cash within 1 year

- Liabilities

- Current liabilities = amounts you expect to pay within 1 year
- Long term liabilities = amounts payable not within 1 year



Net Worth

		£	£
Investments			+
Fixed Asset			+
	Current assets		
	Cash/Debtors	+	
	Current Liabilities		
	Creditors	-	
	Net Assets		+
Long Term Liabilities			-
Net Worth			+

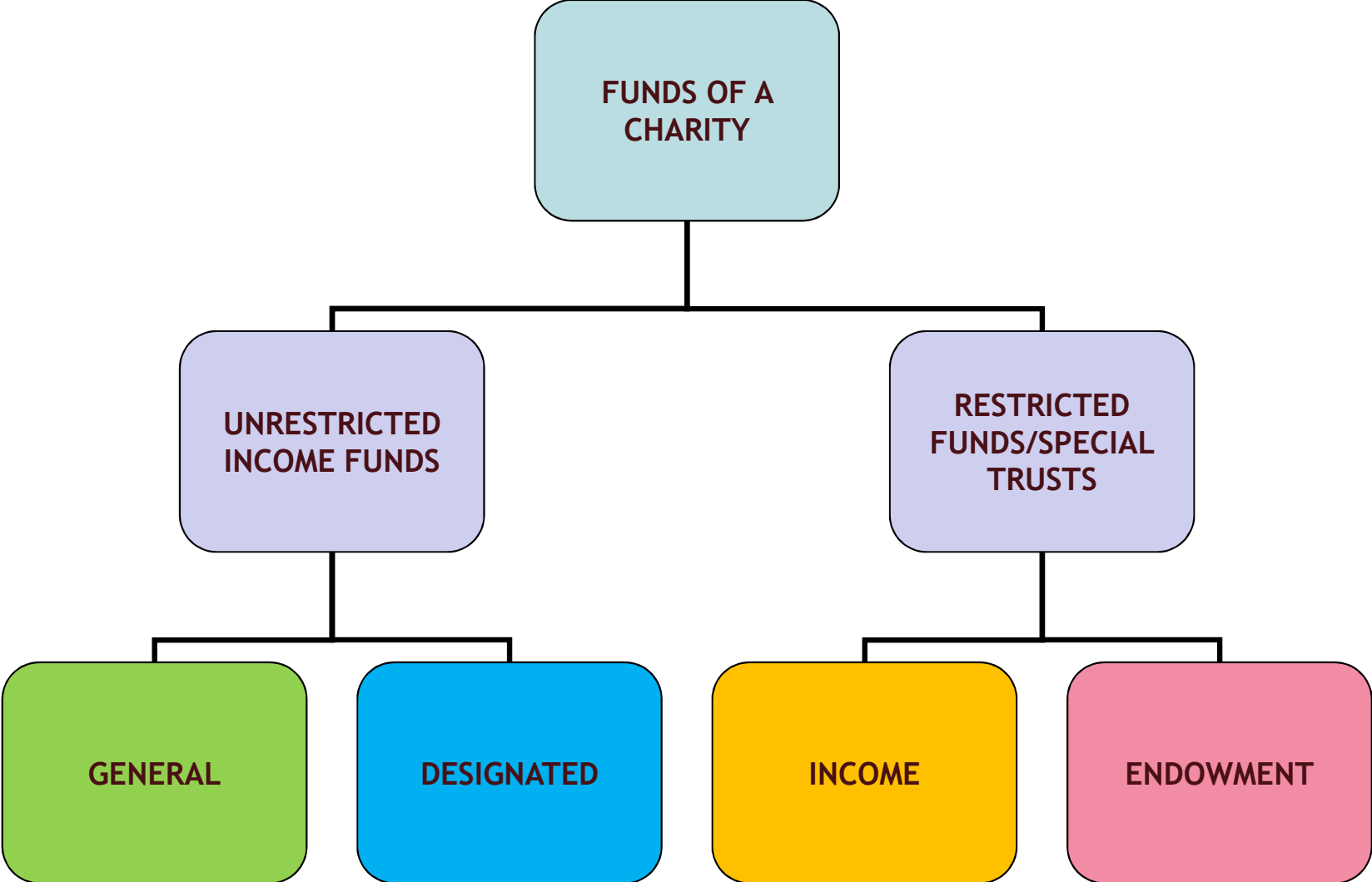


Balance Sheet review

- Fixed assets
 - Valuation can be suspect
 - Not readily realisable into cash
- Current assets
 - How quickly are debtors turned into cash
 - What is period of stock holding
- Current liabilities
 - How much is owed to suppliers
 - How much is owed to HMRC



Reserves



Reserves review

- Unrestricted reserves
 - Flexibility of operations
 - Innovation
 - Employee development & retention
- Charity Commission
 - Sufficient funds to
 - Seek additional funding, or
 - Orderly shut down – redundancy
 - Rule of thumb – 3 months



Unrestricted reserves

- How much is available as “Cash”?
 - Surplus in any period goes into
 - Bank
 - Unrestricted reserves
 - Spend money on fixed assets
 - Bank balance reduces
 - Reserves unchanged
- Funders
 - Why not utilising available reserves for programme activities
 - Getting the balance right



Trustee's Annual Report

- Responsibility of the trustees
- Essential marketing document but has to be audit compliant
- What most stakeholders will read
- The trustee report expands on what the charity has done and what it will do in future (**strategy/ public benefit**)
- Risk policy
- Reserves policy
- It is “colouring” in the bits that the figures cannot tell



TAR Framework

Who are we?	Reference and administration
How do we work?	Structure, governance and management
What are we doing?	Objectives and activities
What did we do and how well did we do it?	Achievements and performance
How did we afford it?	Financial review
What are we planning?	Plans for future periods
What else do we look after	Custodianship

