Financial Management & Planning

The financial management of your project is vital to ensure transparency, sustainability and to ensure that financial mis-management does not occur.

Whether your project is large or small, a parish project or a formal charity - financial controls are essential and not optional.

There are certain processes and procedures that must be in place, listed below are just a few:

* Managing and reconciling the bank account monthly against the income and expenditure
* Ensuring more than one person is responsible and managing the bank account
* Expenditure and expenses are agreed by more than one person – segregation of duties
* Receipts are kept for all expenditure and filed
* Ensuring monetary donations are correctly categorised in the bank account
* Restricted donations
* Unrestricted donations
* Ensuring restricted donations are only spent on the purpose that the donor has stipulated
* All cheque or cash donations must be recorded immediately
* Budgeting
* Financial planning for the future

This may sound daunting particularly if you are running a small project. But it doesn’t have to be. Establishing and introducing very simple procedures at the beginning is vital and easy to do.

We have lots of information and links on the following pages from the Charities Commission and VSCO to help your project be financially and legally complaint.

Completing the below self-assessment checklist produced by Charity Commission should help highlight any additional controls that you might need to put in place.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\_data/file/807910/CC8\_checklist.odt

**WHAT'S DIFFERENT ABOUT CHARITY FINANCE**

In many ways it is not that different in terms of day to day operations.

Size and complexity of organisation makes a far bigger difference than sector when it comes to management information, and essentially, everyone needs to know:

* what money is coming in and where from
* what money is going out and where to
* how does that fit with our plans?

Charities are expected to apply proper accounting principles like any other organisation. If you think your charity is doing something that goes against these, it is always worth asking for an explanation, rather than just assuming that it’s because things are different in the charity world.

**Statutory/Annual Reporting**

The regulatory and reporting regimes are different, so the annual accounts of charities look different from those of ordinary companies.

Small (income less than £250,000) non-company charities can report on a cash basis.

Larger organisations don’t have a Profit and Loss Account to show what has happened in the year, they have a Statement of Financial Activities – see [SORP 2015 Made Simple](http://www.sayervincent.co.uk/wp-content/uploads/2015/07/SORP2015MadeSimple-SayerVincent-July2015.pdf) – Sayer Vincent.

**Fund accounting**

A big difference for charities is in how you account for your funding. Charity funds fall into two broad categories: restricted and unrestricted.



**Restricted Funds**

Restricted Funds are where the restriction is defined by the **donor.**

If a donor gives money to your charity in a way that specifies how that should be spent – as part of an appeal for a new building, or as a grant to pay for a project – you are duty bound to spend it for that purpose. You shouldn’t even borrow it to use for another project, because it isn’t at your disposal.

This means you need to be careful when you are putting together an appeal and word it so that you don’t tie money up in a restricted fund unnecessarily. The [Institute of Fundraising](https://www.institute-of-fundraising.org.uk/code-of-fundraising-practice/guidance/accountability-and-transparency-guidance/fundraising-and-marketing-materials-and-relationships/) has advice on this.

This also has implications for your accounting set up because you have to be able to identify all the money that has come in and been spent on a particular restricted purpose – and to be able to group all the restricted funds together for reporting at year end. It is a similar idea to project accounting, except that you don’t have discretion over taking money in and out of a restricted pot as you would an ordinary project.

**Endowment Funds**

Restricted endowment funds are less common. Charities are required under trust law to invest the assets of an endowment, or retain them for the charity’s use rather than to spend them. You can spend the income.

**Unrestricted Funds**

**General Funds**

This is the money that you have at your disposal to spend on your charitable objects at your discretion. It is an unspoken assumption that this is what people are aiming to build up because it gives you most freedom to pursue your aims without external interference.

**Designated Funds**

Designated funds are earmarked formally by the **trustees** for a particular purpose and can be formally undesignated and go back into the General Fund.

The [Reserves Policy](https://knowhow.ncvo.org.uk/tools-resources/financial-procedures-manual/writing-the-financial-procedures-manual/financial-responsibilities-1/reserves-policy) and Guidance looks at how and why you might build different reserves within your General and Designated Funds.

WYCAS give more detail on the principles and practicalities of Fund Accounting.

**Financial responsibilities of the board**

Among the six key trustee duties, three stand out in relation to finance:

* Act in the interests of their charity and its beneficiaries
* Protect and safeguard the assets of their charity
* Act with reasonable care and skill

All trustees need to have sufficient awareness of the key issues not to be caught unawares – you might not know everything about the finances, and you might get things wrong, but you should have a fair idea of whether you expect to have enough money to deliver your plans, and when the pinch points might come. You can’t leave that all on the treasurer’s shoulders – they will know about the numbers, but may not understand what the charity does as well as you do.

The incentive for getting interested is that when you have a good overall picture of the finances, you are much better placed to determine how to allocate the resources, and engage more readily in the debate.

It takes time to build up the skills and confidence to know what to ask so the Charity Commission has put together [15 questions you should ask](https://www.gov.uk/government/publications/charity-trustee-meetings-15-questions-you-should-ask/charity-trustee-meetings-15-questions-you-should-ask) including really [useful detailed questions](https://www.gov.uk/government/publications/charity-trustee-meetings-15-questions-you-should-ask/charity-trustee-meetings-15-questions-you-should-ask#making-the-most-of-our-finances) you could follow up on.

The Charity Finance Group have a comprehensive document called [Essential Charity Finance for Trustees](https://cfg.org.uk/userfiles/documents/CFG%20resources/CFG%20Publication/CFG229%20CFG%20Guide_ONLINE.ashx.pdf).

**Treasurer’s role**

All the guidance stresses how important the treasurer’s role is, which is true, but few lead with how interesting and entertaining it can be and what a unique insight you can get into an organisation. As treasurer, along with the member of staff responsible for finance, you often occupy an odd impartial territory. You have to start by setting aside your own views to give objective information to enable the board to have a full debate.

Although all the trustees have a financial responsibility, in practice they will look to the treasurer to have gone into more detail and alert them to what they need to know.

The [Honorary Treasurer’s Forum](http://www.honorarytreasurers.org.uk/) summarises the role as:

to monitor the financial administration of the charity and report to the board of trustees at regular intervals on its state of financial health, in line with best practice, and in compliance with the governing document and legal requirements.

...though it is important to interpret the ‘reporting’ as an active process rather than one where the other trustees merely receive the report.

**Treasurer Role Descriptions**

* [Honorary Treasurers Forum](http://www.honorarytreasurers.org.uk/docs/HonoraryTreasurerRole.pdf)
* [ARVAC](http://www.governancepages.org.uk/sample-documents/jobrole-descriptions/job-description-for-a-treasurer/) – this role description can be easily adapted for very small organisations

**INTERNAL CONTROLS**

 **What are internal controls?**

Internal controls are the things you do to help manage the risk of an error or a fraud - like getting two people to approve a payment.  And you should write them down as part of your financial procedures.

You need to make sure not only that you have effective control procedures, but also that your staff actually apply them, and that needs to be led from the top. Your directors need to get behind and support your financial controls, and that culture change is often far more challenging than identifying what procedures should be put in place.

Apart from a few troublemakers, no one sets out to get things wrong, but it happens: people forget to include rent payments because it’s a standing order, write £7,363 instead of £3,763, add up cash collections wrong, allocate income to the wrong project, the list goes on. So it just makes sense to have some processes that have checks for errors and guard against temptation.

**Reviewing your controls**

You need to review your controls regularly to check that they are working, and that they aren’t overkill – is it worth the cost in admin time to go over every single expenses claim, or could you spot check a sample for the smaller ones?  As Kate Sayer says ’a good control is one that is both efficient and effective.’

For each control activity (authorisation controls, bank reconciliations, taking references for new staff) think about the risk that it’s supposed to be tackling and how effectively it does that. Authorisation controls are often not thought through – just because someone is senior, doesn’t automatically mean they are the best person to sign off a purchase.

**Key controls**

There are certain controls that are particularly useful because they tackle several risks, check your data against external information, or the control element is integrated into a piece of work you are already doing.

[**Segregation of duties**](https://knowhow.ncvo.org.uk/tools-resources/financial-procedures-manual/writing-the-financial-procedures-manual/financial-responsibilities-1/segregation-of-duties) – this is an overarching principle rather than a specific control (and is a term often bandied about by accountants). It’s about managing the risk of people making mistakes (or defrauding you) when they are buying things or receiving your money by making sure that your processes don’t allow for one person to do everything end to end - for example from approving and ordering something to receiving and paying for it – that’s where stories about people refitting their own kitchens on company money come from.

**Bank reconciliation** – this is a regular task where you check that what you have recorded in your books as going in and out of the bank matches what is in the bank statements. Checking against external records grounds you in reality – if what you are showing as the cash balance in your books matches the balance on your bank statement on a given day (give or take some uncleared items that you know about) you know you have got something right and you can build the rest from there.

If you are uncertain of the process, see [How to do a bank reconciliation](https://www.wycas.org.uk/help-advice/good-practice-guides/)

**Review of performance against budget and reporting to trustees** – when you are setting a budget and then reviewing performance against it, you might not immediately see that as a control activity, but checking why things are different from budget inevitably throws up some errors as well as more meaningful management information.

[**Levels of authority**](https://knowhow.ncvo.org.uk/tools-resources/financial-procedures-manual/writing-the-financial-procedures-manual/financial-responsibilities-1/delegation-of-authority) – you need to make sure that your staff are aware of what they can commit the organisation to.

**More advice on internal controls**

[Mango/Humentum](https://www.mango.org.uk/guide/internalcontrol)

[Charity Commission Internal Financial Controls for Charities CC8](https://www.gov.uk/government/publications/internal-financial-controls-for-charities-cc8) – the checklist is particularly helpful

**WRITING A FINANCIAL STRATEGy**

Your organisation’s strategy will look at:

* where are we now?
* where do we want to be?
* how are we going to get there?

The financial strategy is more than just costing that – you need to take a step back and look at the financial implications of 'how are we going to get there?' and the associated risks.

And ask the difficult questions about why you do the different activities in your organisation and tease out what is really important to you. Financial information and trends can be helpful in informing the decision-making. Knowing what an activity costs the organisation can crystallise everyone’s thoughts on how important it is.

**Building your financial strategy**

Your finance strategy needs to explain:

* your current business model
* how you expect to fund the future plans
* any other financial implications of the strategy
* what impact the strategy will have on reserves – relating to your reserves policy
* financial risks

**Business model**

You can broadly divide your activities into three types (and probably already do implicitly), according to how they contribute to your strategy, and that then dictates how you will look to fund them.

* The things that make your organisation what it is, your central charitable activities – you subsidise these from other activities
* Charitable things you do if they pay for themselves – fund from restricted grants or contracts
* Things you do mostly to make money – social enterprise, fundraising

Building your business model further, you need to think about whether income is predictable and whether costs are fixed or flexible for each activity

A particular challenge in charities is that, unlike in business, there is often no direct link between income and expenditure for activities central to their purpose. An increase in demand for a restaurant’s services will mean they have to spend more on food and staff – but should also directly lead to increased income. The same isn’t true of a young carer’s project – if they get better and more people are coming for support and help, it costs more, but any increased income has to come from elsewhere by being better at fundraising and grant applications.

**Further Reading**

* Charity Finance Group [Essential Charity Finance for Trustees Financial Strategy and Governance](https://cfg.org.uk/userfiles/documents/CFG%20resources/CFG%20Publication/CFG229%20CFG%20Guide_ONLINE.ashx.pdf) pp 19-20
* Two short articles that give food for thought on financial strategy:
	+ [Kate Sayer: Seven steps for a successful financial strategy](https://www.thirdsector.co.uk/kate-sayer-seven-steps-successful-financial-strategy/finance/article/1307528)
	+ [Planning a financial strategy to achieve long-term sustainability](http://www.mynewsdesk.com/uk/small-charity-week/blog_posts/planning-a-financial-strategy-to-achieve-long-term-sustainability-72346)

**BUDGETING**

Your budget needs to be a translation of your plan into financial terms – you should not be able to write one without the other.

You want the thought process in your organisation to look something like this:



It’s an open loop because you may have to go round it a few times before the answer to the final question is 'yes' and you can go ahead.

Setting aside the widespread dislike of numbers, one of the things that seems to put people off budgets is the fear that they will 'get it wrong' – don’t worry about that, you will – no one can predict the future.

What you need to do is make an intelligent estimate of the things that are predictable, with assumptions based on:

* **evidence** where that’s possible (this year’s rent has been £x, we are not expecting to move and the landlord has indicated there will not be price increase, budget for rent is £x)
* **intelligence gathering**(based on average turnover of staff, we are likely to have to recruit 1 person this year – recruitment costs budget £y)
* **best guess** (we haven’t held an event like this before, if 10% of the families in the village came, that would be Z0 families at £10 per family – budget income £Z00) – which then gives you something to measure against

Then as you go through the year, and your spend is up or down against budget you can reflect on your assumptions and see what needs to change in your financial forecast.

There will always be some things that are unpredictable – and that is where your risk assessments come in.

**Who should be involved?**

You always need to involve the people who actually do the work in creating the budgets for it.

That might sound obvious, but it has been known for finance staff to write budgets. But as they don’t do the work they write something based on what happened last year (and the money they have been told is coming in). Then everyone is surprised that the budget doesn’t seem to relate to what people need – operational staff resent being held accountable for a budget they didn’t write, and finance staff are frustrated that people can’t do as they are told.

**More help with the detail**

* There is a really good [explanation of the process with a simple illustration](https://www.mango.org.uk/guide/budgeting) from Mango/Humentum here:
* WYCAS also have [good advice on budgeting that is UK focused](https://www.wycas.org.uk/help-advice/good-practice-guides/)
* [Our guidance on writing a business plan](https://knowhow.ncvo.org.uk/organisation/tools-resources/business-plan-template/writing-your-business-plan) also has templates for financial forecasts

**Cash flow forecast**

A cash flow forecast predicts how much money you will have in the bank at any point over the coming months, showing the impact of timing of your receipts and payments on your bank balance.  Like any other financial information, it is there to help you make decisions.

It Is the same as in your own life – it’s particularly relevant if:

* your income or expenditure isn’t regular but comes in peaks and troughs (perhaps you are reliant on one major event, or your members all renew at the same time of year).
* you are short of money
* you have a surplus you might be able to invest for a period of time

Your budget predicts whether there will be enough income overall in the period to cover costs, but cash flow tells you when you can pay your bills.

The process is straightforward – what you are likely to find difficult is committing to saying when money will arrive (or be spent) because you often just won’t know.  In that situation:

* make some assumptions (probably best err on the side of caution)
* test them out with colleagues or someone who will listen
* if they still seem sensible, note them down with your cash flow
* monitor & update your cashflow regularly

When you have produced a cashflow – use it.  Look at the bottom line – showing the balance on your bank account:

* are you happy with the balances at the end of each month or are some too low for comfort?
* does it look as though you will have a surplus you could invest?
* before you do anything - check your assumptions again to see if anything has changed which would make the cash balance vulnerable

**Cashflow process**



There are plenty of free templates to download that do the calculations for you. [CAPlus Community Accounting](https://www.caplus.org.uk/%22%20%5Co%20%22%22%20%5Ct%20%22_self) have a demo as well (in Toolkits) which makes the process clear.

Info from the Charities Commission

Guidance

**Managing charity finances**

Find out how to make sure that your charity’s money is safe, properly used and accounted for.

Published 2 November 2020

From:

[**The Charity Commission**](https://www.gov.uk/government/organisations/charity-commission)

Contents

1. [Protect your charity’s money](https://www.gov.uk/guidance/managing-charity-finances#protect-your-charitys-money)
2. [Know your charity’s financial position](https://www.gov.uk/guidance/managing-charity-finances#know-your-charitys-financial-position)
3. [Keep accurate financial records](https://www.gov.uk/guidance/managing-charity-finances#keep-accurate-financial-records)
4. [Manage expenses and payments to trustees](https://www.gov.uk/guidance/managing-charity-finances#manage-expenses-and-payments-to-trustees)
5. [Deal with financial problems quickly](https://www.gov.uk/guidance/managing-charity-finances#deal-with-financial-problems-quickly)

As a trustee you must take steps to make sure that your charity’s money is safe, properly used and accounted for. Every trustee has to do this. Even if your charity has an expert to manage its finances, you are still responsible for overseeing your charity’s money.

**Protect your charity’s money**

Make sure that money is only spent on what is allowed by the charity’s governing document and policies. If it is not, you and the other trustees need to put it right.

Use the [Internal financial controls checklist](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/930555/Internal_financial_controls_checklist.docx) (MS Word Document, 31.6KB) to help you know you are doing this properly. This will help you 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

If you want more advice on how to prevent or deal with fraud, look at our guidance, [protect your charity from fraud and cyber crime](https://www.gov.uk/guidance/protect-your-charity-from-fraud).

**Managing risks you have identified**

If you use the checklist it will help you spot the main risks to your charity’s money and help you plan how to manage them effectively. Your charity should keep a list of the risks and how they are managed, reviewing it regularly to make sure it is up to date.

Make sure that your charity uses its annual report to say what it has done to prevent these financial and other risks. This helps to show your supporters and the Charity Commission what you are doing to protect your charity’s money.

**Know your charity’s financial position**

**Set a budget and follow it**

Your charity should have a budget. Check that it is being used. It helps make sure you have realistic plans based on how much money your charity:

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

By checking how much your charity receives and spends against the budget, you can identify problems in good time and agree what to do about them. It’s particularly important to do this where you see big differences between the budget plans and what is actually being spent.

[The National Council for Voluntary Organisation’s budgeting guide](https://knowhow.ncvo.org.uk/organisation/financial-management/planning-and-budgeting) explains charity budgeting and planning in more detail.

**Get the funds you need**

Your charity may get the funds it needs in different ways.

This can include:

* [fundraising](https://www.gov.uk/government/publications/charities-and-fundraising-cc20/charities-and-fundraising)
* [selling goods and services](https://www.gov.uk/government/publications/trustees-trading-and-tax-how-charities-may-lawfully-trade-cc35/trustees-trading-and-tax-how-charities-may-lawfully-trade#trading-by-charities)
* [making investments](https://www.gov.uk/government/publications/charities-and-investment-matters-a-guide-for-trustees-cc14)

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

**If your charity does not spend all its income**

Check that your charity has 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. Check that your charity sticks to the policy or can explain why if it does not.

Make sure that your charity’s annual report explains the policy and says how much money (if any) it has 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](https://www.gov.uk/government/publications/charities-and-reserves-cc19/charities-and-reserves#annex-1-a-simple-approach-to-developing-a-reserves-policy).

**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. You should check whether your charity’s governing document has any specific rules on record keeping and follow them if it does.

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:

* 6 years for a charity that is not a company
* 3 years for a company charity

**Manage expenses and 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 dependants 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](https://www.gov.uk/government/publications/trustee-expenses-and-payments-cc11/trustee-expenses-and-payments#paying-trustees-for-services).

**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 our insolvency guidance](https://www.gov.uk/government/publications/managing-financial-difficulties-insolvency-in-charities-cc12/managing-financial-difficulties-insolvency-in-charities#dealing-with-potential-insolvency) for advice on what actions you should take.

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 you are not sure what to do [managing financial difficulties in your charity caused by coronavirus](https://www.gov.uk/guidance/manage-financial-difficulties-in-your-charity-caused-by-coronavirus) has further practical steps that can help, particularly during the pandemic.

If there is a significant change in the charity’s funds, you may need to [report this as a serious incident to us](https://www.gov.uk/guidance/how-to-report-a-serious-incident-in-your-charity).

[Tell the Charity Commission if your charity closes](https://www.gov.uk/guidance/how-to-close-a-charity) so it can be removed from the register of charities.

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