Ten Top Tips for your Finance Strategy

A finance strategy is integral to an organisation's strategic plan. It sets out how you plan to finance your overall operations to meet your objectives now and in the future. A finance strategy should be clear, focused and give a framework for trustees and staff to make financial decisions over a defined period (e.g. three years). It's important that this goes hand in hand with good governance and robust financial controls to ensure that your organisation sustainable and resilient.

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 (e.g. a fundraising event, or social business)
- Break-even (e.g. 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 important to fully understand your current business model – in other words, the way demand and funding for services come together. Although an organisation may make assumptions about the needs of its beneficiaries and how their services should be funded, their priorities may be changing and adapting because of the world around them.

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. Most business failures are a result of cash flow problems due to over-spending, so pacing change and ensuring the change is funded is very important.

5. Use 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. You should account for a portion of core administrative and managerial cost in the budget you submit in funding applications.

6. Have an exit strategy

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 (eg. hiring out of a hall or equipment). Another asset could be that you have 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, probable, 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 and to have a reserves policy in place.

10. Implement robust 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. 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 include mechanisms for budgetary control: cash flow forecasts, production of monthly income and expenditure accounts, and adherence to annual reporting requirements.

Resources

- Essential Charity Finance for Trustees (2017); Charity Finance Group
- 'Beyond Reserves'(2016); Charity Finance Group
- The Charity Commission guidance sheets on reserves:
    - CC19 Charities and Reserves
    - CC25 Managing charity assets and resources: an overview for trustees
    - CC26 Charities and Risk Management
- The Charity Commission guidance: CC12 Managing financial difficulties and insolvency in charities
- CASH has a range of resources covering most aspect of financial management
- Finance (Tools for Success), CASS Business School