

5 Big Problems Charities face in optimising finance

AND HOW TO RESOLVE THEM

A photograph of a person in a blue suit and red tie sitting at a desk. The person's hands are resting on the desk, and a glass of water is visible in the foreground. The background is slightly blurred, showing a laptop and some papers.

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Introduction

You have set your charity up because you have seen a need in society that you want to alleviate, perhaps with the help of other people who want to help to resolve such issues. Or perhaps you choose to work with a charity to alleviate such issues in society.

The desire of those who lead or establish a charity is to make the right impact. You want to maximise the effect of the resources that you have.

Finance is an essential part of these resources and you want to ensure that it reaches those who need it. This might be through services or to finance the projects that resolve such problems.

In it all, you want to achieve a maximal effect with the resources that you have. One of your major resources is finance.

In this whitepaper, I am going to take you through the five common problems that I have noticed hindering charities from optimising their finance. You will discover the following:

- Ø The state of finance in most charities.
- Ø The five key areas where small charities are having trouble in optimising their finance.
- Ø How to optimise the finance that flows into your charity.
- Ø How and why choosing the right finance function for your charity is worthwhile.

The reality in many charities

The demand for the services of most charities is increasing while their income is decreasing. This was the situation even before the COVID19 Pandemic hit and it has been worsened by COVID19. Many donors have suffered a decrease in their disposable income., therefore reducing their donations.

Besides the impact on donations, another area that has been impacted is the income generated from charity shops, as charity shops remained closed for about three quarters of the last year.

We can generally say that the relative composition of income to charities is changing.

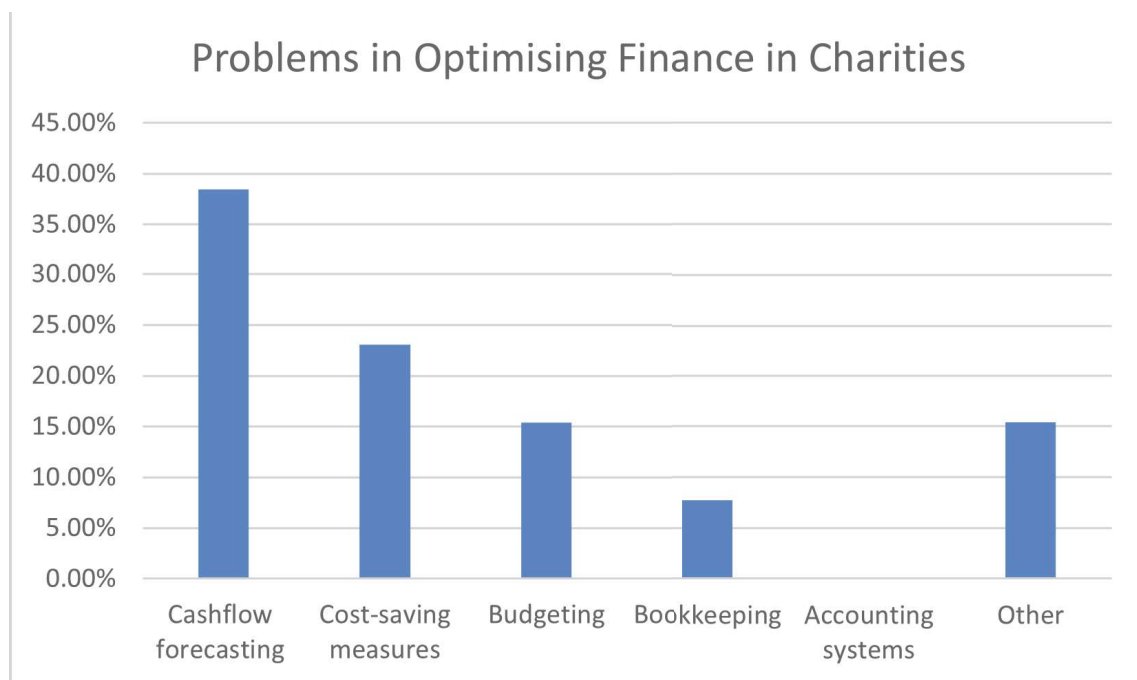
Given the above scenario, the need for charities to optimise the use of available finance cannot be over-emphasized.

AE Accountax Ltd surveyed 50 Charities between October and December 2020 about optimising the use of finance (see figure below). The following issues are predominant:

- Cashflow management;
- Cost-saving measures;
- Budgeting
- Bookkeeping
- Other areas

The reality in many Charities

Results of AE Accountax Charity Survey



Problems in Optimising Finance in Charities

Cashflow forecasting	38.46%
Cost-saving measures	23.08%
Budgeting	15.38%
Bookkeeping	7.69%
Accounting systems	0.00%
Other	15.38%

The above graph mirrors the problems that I have seen time and time again.

Every charity, however, wants to make a big impact. Let's have a look at those issues and how to resolve them.

Problem 1 - Poor Cashflow Management

Cash is the lifeblood of any enterprise and failing to focus on this often proves fatal.

Cash flow is the money going in and out of your organisation. Cash comes in from donations, subscriptions, legacies, grants, government support, and perhaps business activities such as charity shops and other activities. Cash goes out in the form of expenses, such as the financing of projects, volunteer expenses, staffing costs, materials, telephone and internet costs, power usage, and rent.

Positive cash flow means that more money is coming in than going out. This means that you will have plenty to cover your expenses and keep your charity afloat.

Negative cash flow means that you are paying out more than you're receiving, and thus your charity's bank balance is diminishing. It is okay to have a negative cash flow in the short term if you have sufficient reserves. However, if this goes on for too long you will run out of funds and may have to cease operation.

It is possible for a charity to be buoyant e.g. have investments and legacies, but lack immediate cash, to pay staff and suppliers, and carry on the day-to-day operations. This may cause the accumulation of debts. Consequently, you may not have funds available to continue operating.

As well as enabling you to continue operating and protecting you against debt, a positive cash flow allows you to grow and scale your charity in the future. If you have very large cash reserves, it could be time to expand your reach or invest in income-generating projects in line with the charity objectives.

Problem 1: Poor Cashflow Management

Solution

The first step to improving your cash management is to keep careful financial records. Update your books and ensure that your records are accurate.

You should use this data to regularly prepare cash flow so that you can clearly see how much money is entering and leaving your bank accounts. This will then allow you to create cash flow projections to help you manage your money well in the future, too - particularly during periods of growth. This will also help you to prepare an adequate safety net for any unforeseen costs that may crop up, for example, the coronavirus pandemic.

If you have been neglecting your cash management, it is time to make some changes. Good cash flow management goes a long way in protecting the financial health of your charity against debt, circumstantial changes, and unforeseen costs. Whilst enabling you to make smart and well-timed decisions to drive growth.

Problem 2: Ignoring Cost-Saving measures

Cost-saving are measures by which the charity may reduce costs, whilst optimising the use of their income, without compromising on the level of the services or support provided.

Without applying the appropriate cost-saving measures, your charity may be operating with costs spiralling out of control, leading towards a failure.

Solution

So, how can charities apply the appropriate cost-saving measures in time?

The first step is to review the costs. Perform an evaluation of your expenses and see if there are areas where your business is spending more than necessary. A couple of rearrangements could make a sizeable difference.

Consider areas such as:

- Energy and telephone cost-saving measures.
- Insurance cover and costs (Annual review).
- Maximising online marketing and promotions.
- Review back office function costs and outsource specialist activities.
- Cut employee and volunteer costs of travel by conducting online meetings.
- Having an interactive website and making use of management software to resolve some critical functions. Examples are donations and subscriptions can be done via the website, automatic appreciation messages sent, rather than writing and posting letters etc. There may be a need to engage the use of software such as Enthuse or Paypal.

Problem 2: Ignoring Cost-Saving measures

- Partnership with other similar charities to provide support in the communities.
- Using benchmarking to gain knowledge about what similar charities are doing and experiencing, learning from them and making knowledge-based decisions.

Problem 3: Inappropriate Budgeting

Budgeting is preparing a summary of likely income and expenditure for a given period, usually twelve months in advance.

Budgeting provides a tangible, organised, and easily understandable breakdown of all funding and income coming in and the expenditure going out. It helps you to prioritise the use of funds.

Budgeting helps you to match strategies with resources and have planned action, giving stability and visibility to all income, costs and operational timeline.

In the face of the pandemic, many charities have lost faithful donors or volunteers and staff, and lost funding and due to lack of budgeting, they do not know which funds will be available to them.

Solution

The first step to budgeting is to have a complete information e.g. the complete list of donors, funders, and frequency of receipts. Review the assumptions you have made in creating budgets in the past, or create new assumptions (if this is new to you). This means you must have information of past performances and review these along with the conditions under which such financial performances were achieved. These may be performance of your charity or the performances of similar charities.

The next step is to consider which resources are available and if you need to raise or obtain more resources for funding the projects and plans of your charity. You also need to consider how to raise/obtain these resources.

The budget for your charity needs to be regularly reviewed and updated to take into account of the major changes in the environment. This helps to ensure that the charity achieves the purpose of benefiting the public it was set up for.

Problem 4: Poor Bookkeeping

Bookkeeping is the recording of your financial information so that it is easy to see what money comes in, and its source and the outgoings and the purposes.

Many charities are more focused on serving and meeting the needs of the society, thereby neglecting bookkeeping. However, it is essential that you keep the books up to date and record all of the resources received and expenses incurred on a regular basis. Without this data, you won't have a clear picture of how your charity is faring financially, which can lead to a myriad of nasty problems.

Meticulous bookkeeping allows you to spot trends, understand your spending and examine which practices generate the largest ROI (Return on Investment). You can then leverage this data to improve the financial health of your charity and manage your cash flow. Staying on top of the books allows you to stay one step ahead and put out fires before they start.

As we now live in a digital age, it is important to harness the use of technology. A cloud-based bookkeeping software is a cost-effective solution that can save you many man hours.

Problem 5: Other

Some of the other issues that affect charities include:

- Problems with setting the right financial controls in place.
- Inability to integrate other Key Performance Indicators with finance.

Financial controls:

Financial controls are the policies and procedures which your charity uses to monitor and control the direction, allocation, and usage of your financial resources.

Without the appropriate financial controls in place, a charity may find itself vulnerable to incidences of fraud.

Solution

Some of these financial controls is the need to adopt SORPs (Statement of Recommended Practice), and having policies in place such as segregation of duties and clear lines of responsibilities, monthly bank reconciliations with records of income and expenditure, etc.

Financial controls are vital to help your charity align with and fulfil its objectives.

Key Performance Indicators:

Key Performance Indicators (KPIs) measure and demonstrate how your charity is effectively achieving its objectives.

Without these measures, you cannot confirm if your charity is growing or going under. They also provide an opportunity to effectively manage the performance of your charity.

Problem 5: Other

Solution

The first step in setting the key performance indicators for your charity is to identify the strategic objective for the charity and then engage the right people in thoroughly thinking through the standards for achieving the objective.

The standards must be SMART (Specific, Measurable, Attainable, Relevant and Time-based).

After this, you want to set up the systems to monitor whether these standards are being achieved. The KPI's should cover all areas.

Where variations are identified, you look for the cause and find ways to correct and improve the processes.

The Big Question!

Following from above, what are the specific issues preventing your charity from optimising its finances?

- 1) Is your charity facing similar issues in line with any of the points mentioned?
- 2) How would you feel, if every year, your charity continues to grow in impact and expand, despite the limited financial resources?

Next Steps:

If you find that you have any of the problems stated above, then you are not optimising your financial resources.

To optimise your finance, then you need to:

- Improve your cash flow management.
- Apply cost-saving measures to the system.
- Set aside the time to Budget, and adjust as times change.
- Introduce yourself to a bookkeeping package like QuickBooks.
- Hire a quality accountant.
- Give yourself the room to achieve your charity purpose and outsource accordingly.

The problems we have identified are fixable, but you cannot do it all by yourself. It is time to hire a quality accountant who can crunch the numbers, take care of your cash flow and offer expertise.

Here at AE Accountax Ltd, we provide transformational services to optimise your finances and propel you towards more success. We help you to get the most out of your money and accelerate your growth through careful account management and advice.

If you are unsure of what to do when it comes to optimising your finance, we are the fresh pair of eyes that you need. If you want to take your charity from zero to hero, let us help you put on your cape and fly.

To find out more about our services, get in touch at info@aeaccountax.co.uk and book a FREE discovery call today.

About Bim

I am passionate about helping your charity to be compliant, grow and thrive. I specialise in independent examination and accounting services for Charities and the Health sector (sole traders, partnerships, and limited companies).

If this includes you then I would love to hear from you.

My services are both personal and professional. I am always willing to go the extra mile to serve our valued clients because your success is our success, too.

AE Accountax Ltd has been around since 2014 and our commitment to our clients has remained steadfast.



Bim Ewetade FCCA, IFA

Owner, AE Accountax
Ltd

Contact

If you'd like to find out more about our services, head to our website, book a free discovery call or send us an email. Our office hours are 9am-5pm Monday to Friday and we aim to reply to all enquiries within 24 hours.



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