



ICAEW WEBINAR - CHARITY SECTOR

FINANCIAL EFFECTIVENESS: LESSONS FROM BEST PRACTICE

PROFIT FOR PURPOSE

12 July 2021

TOPICS

01

Best practice approaches to financial information & planning for the future
- Matthew Tait and Katie Cooper

02

Building effectiveness & resilience
- Ross McWhir



**BEST PRACTICE APPROACHES TO FINANCIAL
INFORMATION & PLANNING FOR THE FUTURE**

IDEAS | PEOPLE | TRUST

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PROMOTE INFORMED CONVERSATIONS

Fundamentally important to know current financial position and operational financial outcomes

- ▶ Understanding and effectively communicating financial viability and sustainability is a key focus for trustees, management and beneficiaries
- ▶ The Charity Commission expects Trustees to be able to recognise at an early stage when a charity is facing financial difficulties - in particular, whether the charity is a going concern
- ▶ Uncertainty - key challenge
- ▶ It requires robust, timely management information upon which decisions are made; and the proper recording of those decisions
- ▶ Emphasises the importance of KPI analysis, early warning sign mechanisms and scenario planning
- ▶ Headwinds from numerous external factors
- ▶ Impact of statutory protections being removed?

Benefits

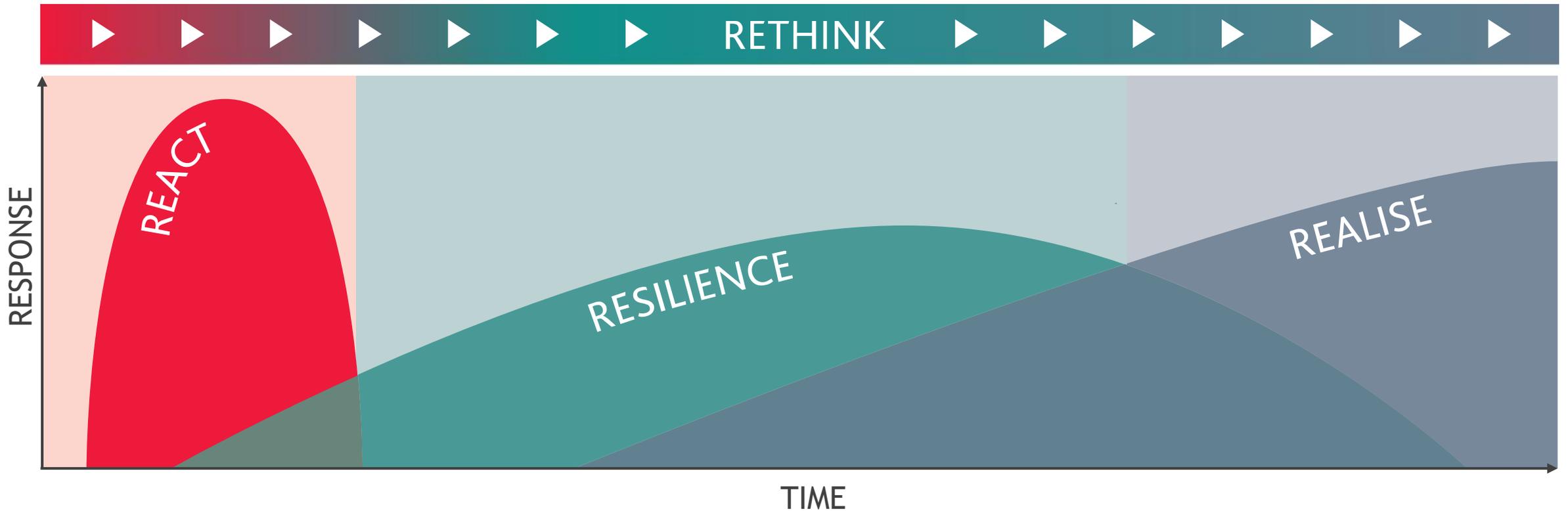
- ▶ Strengthening internal management alignment
- ▶ Build resilience
- ▶ Increase understanding
- ▶ Generating evidence of sound management processes
 - Common platform of information
 - Facilitate good governance
- ▶ Assist Trustees' to comply with their duties
- ▶ Assist with stakeholder management and 'buy-in' to strategic decisions
- ▶ Enable Audit Going Concern assessments

UNDERSTANDING WHERE YOU ARE

Addressing the charity's immediate needs

Agreeing information requirements to build resilience and improve communication

Delivering on the opportunity



FINANCIAL INFORMATION - BEST PRACTICE

Current financial position and performance

Guiding principles:

- ▶ Applicable to own entity
- ▶ Reflect operations/ core purpose
- ▶ Understandable and pertinent to audience
- ▶ Quantity and frequency
- ▶ Monitor key risks and opportunities

Suite of information:

- ▶ Dash board - Key data and KPI's
- ▶ Monthly management accounts - SOFA, Balance Sheet and Cash Flow
- ▶ Actual to Forecast variance analysis
- ▶ Free reserves calculation
- ▶ Short-term weekly cash flow
- ▶ Issues Log

FORECASTING: BEST PRACTICE

Good forecasts...

- ▶ Fit and inform the strategic plan
- ▶ Take time
- ▶ Integrated Statement of Financial Activities ('SOFA'), Balance Sheet and Cash Flow Statement
- ▶ Have a clear basis
- ▶ Built with formula driven flexible assumptions
- ▶ Allow for trustees to 'iterate'
- ▶ Are agreed
- ▶ Active management tool



FORECASTING: TWO SIDES OF THE TRACK

Know and assess your options

Platform 1

Downside planning and statutory risk management

- ▶ Integrated Base Case model
- ▶ Determine key drivers and risks
- ▶ Distinguish operational and imponderables
- ▶ Matrix of likelihood v's impact
- ▶ Conduct sensitivity analysis to inform scenario planning
- ▶ Demonstrate viability and sustainability for Going Concern assessment
- ▶ Reverse stress test
- ▶ Active management tool - KPI's and covenant testing
- ▶ The longer the consideration; the greater the options for mitigating actions

Platform 2

Operational and financial efficiency

- ▶ A deep understanding of costs, working capital and operational processes provides opportunity
- ▶ A review of income and costs (contracts, suppliers, policies) could increase financial resilience
- ▶ A review of working capital could change funding structures and financial model assumptions
- ▶ A review of operational processes could promote the opportunity to benefit as the economy returns

SECTOR CONSIDERATIONS

Planning for the future

- ▶ Grants and emergency funding
- ▶ New to debt financing and covenant compliance?
- ▶ Statutory protections ending
- ▶ Defined Benefit schemes and deficit repair contribution agreements
- ▶ Fraud risk and cyber attacks - IT investment to protect against and support hybrid working models
- ▶ Estate strategy
- ▶ Corporate simplification
- ▶ Cost allocations between departments and/ or subsidiaries - transparent and proportionate?
- ▶ Restricted and unrestricted funds
- ▶ Branches
- ▶ Unpredictable elements e.g. legacies, uncertainty about 'getting back to normal'
- ▶ Valuations
- ▶ Free reserves calculation

PRACTICAL HINTS AND TIPS...

Lessons from best practice

- ▶ Bespoke to your charity's needs and structure
- ▶ Clearly set out objectives when presenting forecasts to Trustees/ stakeholders
- ▶ Excel models should have formula driven flexible assumptions; make use of checks and balances
- ▶ Internal capabilities v's external specialists
- ▶ BDO Charity Forecasting Tool

Recommendation

- ▶ Investment of time and resources in a robust integrated forecast model to ensure holistic view and key variables captured
- ▶ Assess impact of vulnerabilities and potential sensitivities
- ▶ Conduct proper scenario analysis and contingency planning

A photograph of two women in an office environment. The woman in the center is smiling and looking towards the right. She is wearing a dark blue bomber jacket over a yellow and black leopard print top. Her hair is styled in a bun. The woman on the right is partially visible, wearing a yellow top with white polka dots. They are sitting at a desk with a laptop open. A yellow desk lamp is visible on the left side of the desk. The background shows a modern office with other desks and computers.

BUILDING EFFECTIVENESS & RESILIENCE

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CURRENT TRENDS - FINANCIAL & OPERATIONAL EFFECTIVENESS

We're seeing a lot of our clients focus on building resilience in their Target Operating Model

COVID-19 has been a catalyst for change. This has provided incomparable challenges for charities, but also an opportunity to build and embed financial and operational resilience



Rightsizing aims, objectives and operations



Challenging what is happening and where it's happening



Manage costs, but focus on value



Being measured, but bold



A RECENT PROJECT ...

BDO recently supported a large national charity challenge their Target Operating Model and cost base, prioritise opportunities and implement change

We followed a five stage process to identify opportunities, collect and analyse data, get key input from stakeholders, and summarise findings

- 1 Build financial and operational baseline
- 2 Stakeholder workshop(s)
- 3 Benchmarking and hypotheses formulation
- 4 Deeper analysis and opportunity identification
- 5 Stakeholder buy-in



QUESTIONS



Q&A

Submit your comments and questions to the Panel using the **Q&A box**.

THANK YOU FOR JOINING US



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