

Toolkit 7- Financial Sustainability Assessment

Toolkit 7 enables you to assess your financial sustainability, and assess the risks that may stop the finance function fully supporting you in the current Coronavirus environment. It also enables you to prioritise any actions that may be needed. It has been co-produced by the free [Charity Excellence Framework](#) (CEF) online toolkit and [Moore Kingston Smith](#). You can download the 700+ Emergency Funders List and other toolkits from the [CEF Home Page](#).

The [CEF platform](#) enables any UK based non-profit to increase its impact and financial resources, but is very quick and simple to use. [Demo video](#) (4 mins). **Everything is free.**

The other toolkits below, can be downloaded from the [CEF Home Page](#).

Responding To The Crisis

- Organisational response plan.
- Financial assessment and action plan.
- COVID19 Funder List, 250+, with links to other lists: 1000+ in total.

Sustainability

- Building resilience & creating a fundraising recovery plan. [Video Version](#).

If you want the Charity Excellence daily updates, connect with me on [LinkedIn](#), [Twitter](#), or [Face Book](#).

How To Use This Toolkit

It's been made for anyone to use, so some areas may not be applicable. Equally, you may need to include additional risks that are specific to your charity. Amend/delete/add to meet your needs. Guidance on [risk ratings and assessing priorities](#), and how to [assess your services](#) against impact and profitability (the ability for services and activities to generate a surplus after overheads) are given at the end of this document, or click the links above.

The Overall Assessment summarises the results of your Detailed Assessment. At the end is help in using the [Risk Ratings and Priorities](#), [Assessing Services](#), [Looking At The Finance Function and Support](#) from [Moore Kingston Smith](#).

Basics

Finance can be broken down into three main areas; strategic, operational, and cultural.

- **Strategic** – income, expenditure, reserves, balance sheet, and cashflow. These are all the basic elements of finance which you will need to consider to ensure financial sustainability. In the long-term, if your expenditure is greater than your income and you can't support this from your reserves then you are no longer financially sustainable. To prevent this, and ensure that you have enough cash to trade, you need to keep on top of the basics. Do you understand these and also your business model – how you generate and spend cash? Do you understand your income streams and services sufficiently to understand which make money and which don't? You are going to need to know this to make decisions about which services and activities to keep going and those potentially to scale back, or stop.
- **Operational** – this is where we look at the mechanics of finance: financial governance, transaction processing, controls, management information and sign off on bids, costing and cost recovery. Each element of the finance function is critical to protecting the assets of the organisation, and reporting on this quickly and in a good enough format to make management decisions.
- **Cultural** – this is often forgotten about, but looks at whether people think that finance is important or whether finance lacks teeth to get budget-holders to take action. It also focuses on finance's role as a business partner, to help the charity think in difficult times, and not just act as a processing function.

We will break down the key risks in these three areas in detail.

Overall Assessment

Functional Area	Urgent Priorities	Important Action	Overall Risk Rating
Strategic <ul style="list-style-type: none"> - Income - Expenditure - Cashflow - Balance Sheet - Reserves 			These are example risk ratings
Operational <ul style="list-style-type: none"> - Governance - Management information - Controls - Transaction processing - Sign off and Cost Recovery 			
Cultural <ul style="list-style-type: none"> - Issues affecting performance and financial management 			

Detailed Assessment

Risks	Assessment	Action – what, by whom and by when	Risk & Priority
STRATEGIC			
INCOME General: Short-term income heavily impacted. Longer-term income pipeline uncertain and/or substantially impacted.			e.g. Priority 3
Fundraising: Income from fundraising, events, and regular giving significantly affected.			e.g. Priority 3
Trusts and Foundations: Income from trusts and foundations at risk, or moving towards those services only focused on Coronavirus.			e.g. Priority 2
Grants and Contracts: Income from grants and contracts disrupted, or cancelled. Payment by results not possible. Grants not paid on time (affecting cashflow). Funding bid decisions delayed, or core grants potentially at risk.			e.g. Priority 1
Loss-making grants or contracts: Subsidising large contracts and grants from unrestricted reserves.			

<p>Multi-year funding: These end with no replacement secured yet.</p>			
<p>Investments: Income from investments significantly delayed or reduced.</p>			
<p>Trading: Income from shops, and other trading significantly impacted (there is also a potential cashflow impact here).</p>			
<p>Diversification: Income not diversified adequately - single/limited income streams.</p>			
<p>EXPENDITURE Fluctuation: Increased/decreased costs due to disruption of charity activities, non-delivery by contractors, changes in delivery of services, or changes in service demand.</p> <p>Specifically consider the impact on the main areas of your work, typically:</p> <ul style="list-style-type: none"> - Staff costs (including furloughing) - Non-staff costs - Specific large contracts with suppliers or sub-contractors 			
<p>Fixed Costs: High levels of fixed costs (don't vary – eg rent) compared to variable costs (vary with level of activity). Limited ability to be flexible in making changes to your cost base.</p>			

Cost Reduction: Has the charity considered how best to hold back on costs, through cost reduction, stopping services or furloughing? Or using free goods and services available to charities?			
RESERVES Unrestricted: Unrestricted cash reserves well below target to support additional losses, invest in the business, or provide cashflow. Limited free reserves (freely available and liquid cash reserves).			
BALANCE SHEET Cash: Limited cash at bank, or financial assets that could be easily liquidated into cash, to pay bills, wages, and other costs.			
CASHFLOW General: After mapping out all major cash needs (Salaries, critical supplier payments, HMRC), cash is insufficient to keep the business solvent.		Charitable tax reliefs may be claimed up to 4 years retrospectively – review?	
Business Cycle: When looking at your business cycle you are not aware of when cash peaks and troughs.			
Overdraft: Bank unlikely to agree overdraft, or loan, and/or no assets to secure loans against.			
Risks	Assessment	Action – what, by whom and by when	Risk & Priority

OPERATIONAL			
GOVERNANCE Reports: Trustees and management not sure of current financial position, coronavirus impact not reflected in finance reports, including current cash position.			
Budget Control: Lack of effective budget control, including of any coronavirus costs being incurred.			
Forecasts: Trustees and management not aware of future year finance estimates, coronavirus impact not reflected in these.			
Business Planning: Robust plans to replace lost income, or hold back on expenditure not yet in place. No contingency plans or scenarios modelled.			
No <u>Coronavirus Response Plan</u>: The response plan is not formed or is not sufficient.			
Reserves: Management of reserves is insufficient. Unplanned spending of free reserves.			
Reserves: Spending restricted money on non-restricted purposes; including bank-rolling activities and cashflow from restricted sources.			

<p>MANAGEMENT INFORMATION Timely: Management information not produced on a timely basis to provide relevant and current information.</p>			
<p>Up-to-date: Income and expense forecasts not up-to-date and/or prudent.</p>			
<p>Collaborative: Management information is not produced using financial and non-financial information that really matters; it is generic data and not owned by budget holders.</p>			
<p>CONTROLS Security: Insufficient controls in place to ensure security of cash and where this is paid to (there are growing fraud attempts in the Coronavirus environment).</p>			
<p>Sign off: Effective sign off of paperwork has broken down or is insufficient (this usually occurs because sign off is paper-based and staff are no longer in the same physical location).</p>			
<p>Going Round Processes: Staff are no longer adhering to process and procedure and are going round these.</p>			
<p>TRANSACTION PROCESSING Input Errors: Inefficient and outdated finance systems meaning duplication of data entry and increased input errors.</p>			

<p>Processing Delays: Significant delays in processing now occurring due to Coronavirus and poor systems.</p>			
<p>MARGINS and COST RECOVERY Visibility: Trustees and management not aware of what each service truly costs to run, including a fair share of overheads.</p>			
<p>Subsidising Grants and Contracts: Unrestricted funding being used to subsidise overheads and grants and contracts without effective sign off.</p>			
Risks	Assessment	Action – what, by whom and by when	Risk & Priority
CULTURAL			
<p>BUSINESS PARTNERING Decisions: Finance are not part of the senior leadership team or involved in any key decision making. Alternatively, finance sees their role as transaction processing, not helping the charity respond.</p>			
<p>Management Information: Management information is produced by finance alone and without input from budget holders and other staff</p>			

Value: Non-finance staff don't see the value in finance			
GIVING FINANCE TEETH Accountability: Finance are not given authority to hold budget and forecast holders to account for variances			

Risk Ratings & Priorities

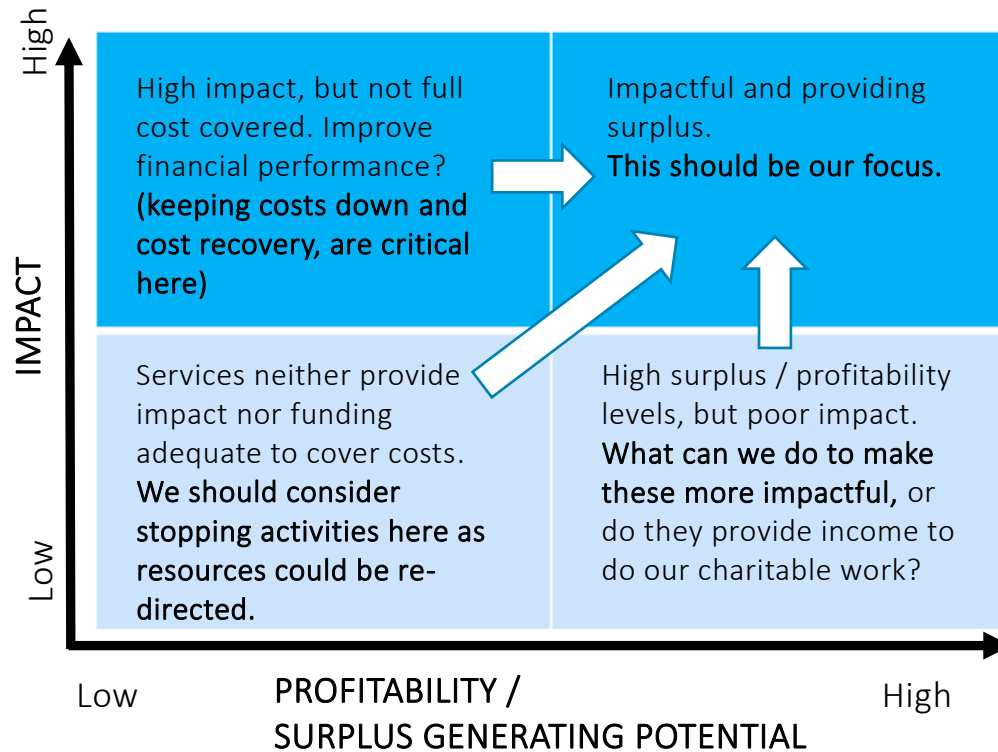
The risk rating is your assessment of the extent to which a particular risk threatens your charity. The priority is how urgently action is required. These are often the same, but not necessarily. A longer term risk may be very important, but of less priority than one which is less important, but for which more urgent action is required. Use the priority rating, if you think it would be useful, if not, don't.

Risk Rating	
	Unacceptable level of risk that threatens the charity's sustainability
	Substantial level of risk that has reasonable potential to materialise and/or would have a major impact
	Acceptable level of risk, that is being effectively managed

Priority Rating	
1	To be addressed urgently
2	To be addressed in near term
3	To be addressed in medium term / longer term

Assessing Services

When reviewing services, it is worth looking at them from both an impact and financial perspective (the ability for services to generate a surplus when taking into account their full overheads). The grid below shows how your charity should respond to different impact and profitability of activities and services.



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Looking at the Finance Function

The finance function can be thought of having different levels, each requires a different skill set:

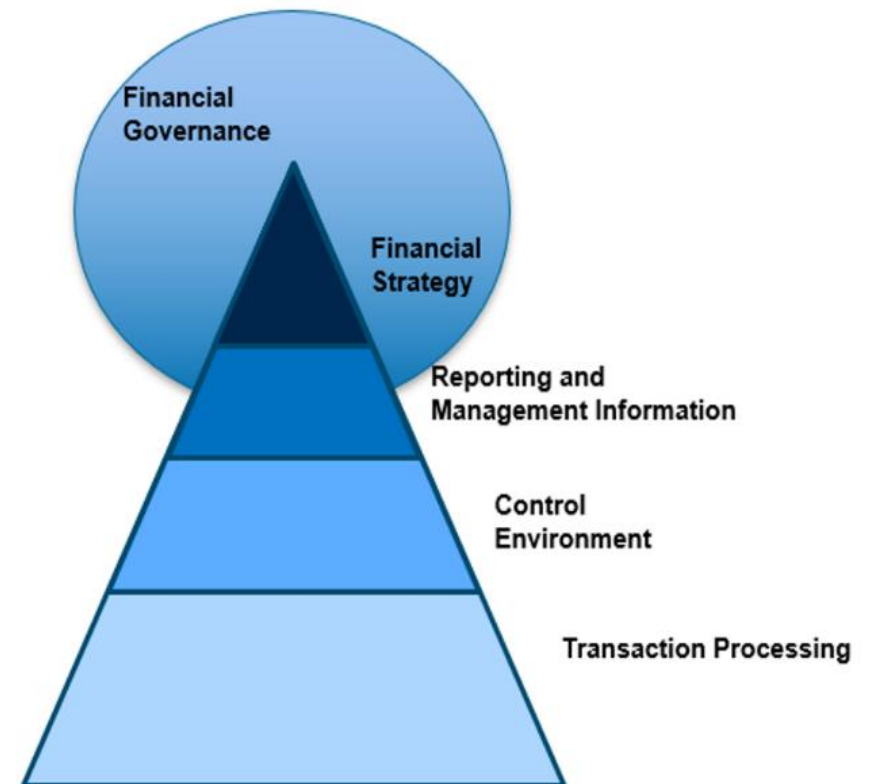
Financial Governance: How Trustees and management ensure effective oversight both of the use of assets, and also how your charity becomes sustainable for the future.

Financial Strategy: How income is generated and money used. It focuses on your business model and also such things as overhead levels. It also includes cashflow and reserve policies.

Management Information: The information needed to run the charity effectively and manage its business. This must be forward looking and also linked to what 'drives' your organisation.

Control environment: How the charity ensures the probity of transactions and safeguards its assets

Transaction processing: How the charity processes and records its transactions. This also includes taxation.



Additional Support

[Moore Kingston Smith Fundraising & Management](#) are offering a free consultation call to non-profits that may need this. They can be contacted in the following ways:

Email: msalway@mks.co.uk

Telephone: 020 7566 3703

Twitter: [@MKSFMConsulting](https://twitter.com/MKSFMConsulting)

Additionally, MKSFM are running a series of webinars to aid organisations with a wide range of topics including fundraising, cost recovery, and impact measurement. Sign up details can be found [here](#), or find out more about their charity resources and webinars on the [Insight Page](#).

If you thought this was useful, why not register with the [Charity Excellence Framework](#)? It has the largest resource base in the UK charity sector and everything is free.

This resource has been produced for everyone. It may be used or shared, but not for commercial purposes.