

IT'S NOT IN THE BANK UNTIL IT'S IN THE BANK! WE ARE FACING A CRISIS.

There are few more heartbreaking situations than having to go to the Board of a charity you have founded and saying "There is neither enough money nor prospect of enough to meet our liabilities beyond the next quarter and I must recommend you issue redundancy notices, release all volunteers and close down all operations"

This edition of the regular Funding Briefings from ACVO is a response to the situation of community groups and voluntary organisations who have **no or insufficient income for the financial year ahead**. Particular attention is paid to those facing even closer crisis. Such organisations may be small and volunteer-run or employing staff. Some will be charities, others will be differently established. Some will have been running for some time, others will perhaps be coming to the **end of funding as a pilot project**. Some will have been **reliant on significant funding from statutory, trust or corporate finance** while others will have generated the majority of their income from donations and events.

This Funding Briefing looks at:

- It's not in the bank until it's in the bank— How bad is the situation?
- £££ in the Bank so we're OK?
- What are your funding options?
- Fundraising in a crisis
- Facing the Governance facts
- Making the most of bought time
- Stopping it happening again.

IT'S NOT IN THE BANK ... HOW BAD IS YOUR SITUATION?

First of all, are you absolutely clear whether this Funding Briefing applies to you? When was the

last time that your Board or Management Committee looked in depth at an up-to-date report on each of the following?:

1. Your receipts/payments report to date (otherwise "profit/loss")
2. your income and expenditure projections
3. your cash flow projections
4. your fundraising progress
5. your operational reports, budgets and liabilities (inc staff contracts)

A less than in-depth understanding of the actual up-to-date situation in any of these respects may mean a failure to notice the implications of eg:

- A **one-off bill** being due for a sum larger than in a normal quarter or a need for payment of additional manpower for sickness or maternity cover.
- Additional **operational commitments** coming in to play perhaps as a result of grant conditions or staffing issues
- A dip in normal **regular** donation or fundraising event income
- A grant being paid in **retrospective instalments** so you have to pay out before spendable cash has flowed in
- A grant or donation expected on the basis of discussions but **not confirmed** in writing or **not actually paid** in to the bank.
- A grant paid in but not expendable on unfunded core costs. (see below)
- A fundraising campaign or grant application producing **lesser results** than expected

Do not "bank" on any income in the next quarter unless you have written confirmation and know when and on what conditions the payment will be made

A failure to understand the financial situation can arise when there has been an absence of a committed Treasurer, book-keeper/administrator, operations manager or person actively engaged in fundraising or when new personnel are learning

Secondly, look again at your **expenditure commitments and projections**. Face the fact that there is a mismatch between the income available for expenditure and the expenditure budget for any quarter. **However great the need to provide a service to your beneficiaries or the will to support your personnel, nothing can be done without the resources. Reduced or postponed services now are better than no services at all later.**

£££ IN THE BANK SO WE'RE OK?

Not necessarily so, if the funds were given for restricted purposes. Your Treasurer may only be aware of the cash available not the implications of how it was raised or given. If you have asked for funds to pay for certain things (eg play equipment or publicity materials) or to use against certain budget headings (eg volunteer recruitment or work with schools) you cannot divert it to pay the rent or salaries not associated with those budget headings. If you have submitted a budget to the funder and told them which part of that you will use their funding for, that is what you must stick to. You may have included rent or contribution to administrator's costs in the project you have sought funding for. However, you would only be able to use such funds to pay such costs **if you are pursuing the rest of the project**. If you have been funded to achieve certain outcomes (eg older people have fitness classes) then you cannot use the funding to maintain work that does not contribute to those outcomes (eg use it for work to give older people welfare advice). Look very carefully at what you said and what you implied to the funder or donor and what they said back to you in their offer letter and terms and conditions of grant. You may be lucky, perhaps with smaller funders, and find that while you were specific in what you asked for they have been less so in their offer. However do be very careful in such interpretation and if in any doubt have the conversation with the funder (see below). Do not think it is safe to use restricted cash available now and "pay it back" to that restricted fund when other funds come in.

NEVER EVER ROB PETER TO PAY PAUL

Examine carefully what you are legally committed to and where you can retreat. Identify areas of expenditure which are for **growth or development** of services. These may be required under the terms of **conditional (ie restricted) funding**. **Failure to meet those restrictions might mean returning the whole of a grant which also contributes to your core costs, worsening your overall situation. However proceeding onwards may be untenable** (see below)

If **growth or development** in the next quarter is not part of a **contractual arrangement** with a funder or other party, then you may be able to cut back associated costs. Clear **monitoring** of current operations will be vital in identifying growth plans. Eg are you budgeting to provide a service to a higher number of clients next quarter than you have **actually served** previously? Are there not only obvious operational costs which can be cut but **hidden costs** such as rent/heat/light/housekeeping costs; publicity materials, travel etc. If you are cutting back on operational plans for the next quarter, how can you ensure that you are not still raising referrer or beneficiary **expectations**—are you still outreaching, advertising, promoting through the web?

Look at **subscriptions, training and similar personnel** costs. Are these essential in the quarter ahead?

Look at **core costs** such as stationery, postage, photocopying, telephone, travel, catering and consider whether cutting back on these would make an impact. Look at your **payments and credit control policy**. Do you pay your bills immediately on receipt while your creditors pay theirs at the last possible minute? Could this be addressed?

Are your **fundraising plans** going to cost you money? (see below)

Could you stop taking new **referrals**? Could you cut back on **current service delivery**?

FACING THE GOVERNANCE & REGULATORY FACTS. If whatever cuts you make, you cannot meet your obligations for more than a quarter ahead, then you must consider what duties and responsibilities you have either as employers, or as charity trustees and as company directors, whichever of these categories are applicable. **Your employees rights regarding redundancy must be respected. Failure to do that places employers at risk of being liable to pay compensation.**

If your organisation is unincorporated then remember that ALL the liabilities rest with the management committee personally. Selling off assets to fund a shortfall may be possible in certain circumstances, but be aware that there may be restrictions on how a charity in particular can dispose of its assets. If you are a limited company, then theoretically, the company itself bears the loss, but this is not always the case. If the Directors of a Company allow it to trade while insolvent, they have no protection from personal liability. If this is the situation facing your organisation, there is no substitute for professional HR and Accounting advice.

WHAT ARE YOUR FUNDING OPTIONS?

A good rule of thumb is that **what a fundraiser does today produces results in 9 months**. Engaging in new fundraising activities is unlikely to get you out of an imminent crisis. Adequately researching, preparing and receiving a positive decision on a **grant application** to a new funder takes time and with even the fastest decision makers will take most of the next three months. Organising a fundraising **activity or event** that will produce a sufficiently significant flow of income will require you to invest money and other resources up-front and almost always require longer than three months. If you have such activities planned consider seriously whether you should cancel.

Going to potential funders or donors with **the message “help us or we’ll have to close” is full of pitfalls. No-one likes to “throw good money after**

bad”. Few could or would be willing to provide you with all the money you need to survive.. Many would see a donation/grant to an organisation that may still close as money down the drain. Many would wonder how this crisis has arisen and perhaps unfairly decide your organisation has been poorly managed.

Your **Local Authority** has first and foremost a responsibility to its voters and tax-payers. It is unlikely to hold funds it can use to bail out failing community organisations. (See below)

In the worst case scenario, **the media** can get hold of a crisis story with far reaching implications. No responsible organisation would want the news of its crisis to reach vulnerable clients in such a way if at all possible. Negative images

of your organisation can unfortunately hang around for a long time, spread widely and affect your ability to win support well into the future, even when this immediate crisis has long been resolved.

Think carefully about whether your fundraising in a crisis can be done privately and about the messages you put out. (See below)

Your best options are to:

- A) clearly identify **when** you need funds in the bank by to meet your liabilities (eg with reference to staff or landlord notice periods)
- B) clarify whether there is a date by which you can be sure a short-term cash flow problem will remedy itself (eg another core grant instalment)
- C) how much money you need to either tide you over (at cut-down expenditure levels as above) until that date
- And/or
- D) what **realistic fundraising strategy** you could employ (see below)
- E) **how much** money you need to “buy” you enough months to make fundraising viable (remembering the 9 month rule of thumb).

With this information you can assess the extent to which you can survive if you **turn to:**

- **Your Board or management committee** and their advisers They are the individuals whose commitment to the organisation is so great that it is enshrined in law and, although it is not a legal responsibility to fund its work, at a make or break point they more than any others would be expected by the “man-in-the street” to do all they can to help. Your assessment of the crisis may be that the crisis is so urgent that donation from their own personal finances is the only hope. It may well be that there are sources of income which, given the severity of the situation, they could tap (though you would not normally ask this of them). This might be family connections, business connections or funds held by other parts of their own organisation.
- **Your current and/or regular donors, volunteers and helpers.** They have shown commitment to you. They should not hear the news of a crisis second hand. They, as individuals, may be freer to help than any organisation with policies, procedures and timetables laid in stone. Recently one

- Aberdeen organisation received £8,000 as a result of one volunteer's self-organised sponsored cycle ride. This kind of help can make the difference you need. Add on to this list your own friends and families.
- **Your existing grant-funders** (ie those whose money you will still be using over the next quarter or beyond). Whatever the prognosis for your organisation, you should be keeping these supporters aware of the situation and your steps to rectify it (showing the steps your Board and volunteers are providing, as above, may well help enormously). Your funders too have shown a commitment to your organisation that you should respect and may be able to build upon. Hiding the crisis from them is not recommended and is likely to be contrary to the terms of your grant. There may be a number of ways they can help—bring forward the next instalment of their grant; alter the spread of instalments to provide a greater % of the total in the next quarter; reduce the restrictions on the use of their grant; increase the level of grant (perhaps from a separate funding stream).
- **Statutory bodies may have under-spends** in the Jan-March period and be able to give grants quickly and with perhaps slightly more relaxed criteria. Such money has to be spent by you before the end of March.
- Making the funder or donor feel confident that their money will be **effectively used to meet people's needs** and not go “down the drain”
- Making the funder or donor appreciate how much you need their help
- Being honest about your future **prospects and capabilities**.

Earlier Funding Briefings have covered topics such as “Making the Case” and “Fundraising Strategies”. In a crisis it is particularly important that your fundraising refers to :

- What will be achieved **for people in need** (not for your organisation) **if you receive funding, and only if you receive funding**, the urgency of **their needs** and how you know there is a demand?
- **intangible strengths such as the commitment of your Board**, their skills and experience and, where there might be thought to be deficiencies (eg financial management or fundraising for example), your **prospects** of recruiting additional support
- **The value/outcomes/achievements** of the work that you have done before; the results of **evaluation**; the views of experts in the field.
- **External support** you are taking up with training, mentoring, advice on fundraising and business planning

Financial situation in the clearest terms so that, for example, **restricted income** is clearly identified, **overhead costs** are justified in terms of service provision and **strategies** for meeting deficits are clear. When there is a big hole in your income a note to explain why this has happened should be available. Plans to fill that hole and stop it opening up again should be **clear and realistic**. Listing “Donations and Fundraising: £8,000” with no further explanation available will convince no-one. Where do you think these donations will come from? Why do you think they will amount to £8,000? Why do you think you can raise that amount within three months? Or is it £8,000 all from new sources you have had no contact with yet?

FUNDRAISING IN A CRISIS is a delicate matter, particularly when approaching those who, unlike those above, do not have a close relationship with you. Hopefully your assessment of your financial and legal position, your expenditure cuts and your efforts with current supporters have given you **more than three months in which to try to rebuild** . If and only if this is the case, it would be worthwhile to fundraise more widely. In doing so in these circumstances you must balance:

- Your need to raise **income**
- Your need to avoid unhelpful **advertisement** of your crisis

- Is the £8,000 made up, for example, of :
£4,000 from regular individual and company donations when last year you raised £3,000 in the same period
£3,000 from a trust whose officers have recommended that amount to their Board meeting this month
-£1,000 from new company donations

Grant-givers often prefer to fund new or innovative service provision and it may be that committing to develop such at this time would be unwise for your organisation. It may be wiser to recognise your financial situation as arising from a broader organisational need and instead seek out those funders who can help you address those organisational issues.

There are funders, for example, who would support **capacity building** such as:

- **Volunteer recruitment** activities to engage business-folk to your Board or young people to fundraise
- **Studying the feasibility** of generating income in new ways or developing more cost-effective ways of operating or becoming a social enterprise
- **Developing a business plan**
- **Developing a website** or other promotional materials
- Improving your **monitoring and evaluation**
- **Training** Board members, staff or volunteers
- Engaging a **development worker** to implement new partnership strategies
- Improving your **IT** resources

Such a grant could also contribute to core costs.

Corporate donations tend to be relatively small and **corporate fundraising** often does not have a high success rate without a relationship existing first. **Corporate sponsorship**, although more lucrative, tends to go hand in hand with a high profile and confi-

dence that you can deliver significant value to the business. Neither may be the case for you at this time. However, senior business executives often work within a tight network (the “old boys club” of yesteryear) and may have personal or family money that can be given privately. You could seek such support if:

- you—or a member of your Board—have a **close relationship** with at least one such senior business figure
- that figure has a **real interest in your cause**
- You are ready and willing not just to take the money of such figures but to **listen to and act upon their suggestions** for organisational development
- Your Board would **commit to attending** a meeting or small event with such figures and would be equipped to deliver your messages to them
- You have (as above) clearly identified the extent of your problems, where they arise from and **achievable strategies** for the future

Under such circumstances your representative could ask the senior business figure to host (**at his expense**) a small private meeting and bring to the table other likeminded business contacts. At such a meeting you could make the case for their short-term low-profile help.

Gifts in Kind may also be helpful in a range of ways and be forthcoming from sources unable to provide money. Helpful gifts might be:

- * **Free legal advice**
- **Free desk-space and meeting space** that you could move to if overheads are one of your issues. Sometimes this can come with an absorption of all sorts of other office costs.
- **Secondment or volunteering** by a staff member—a financial manager or personnel manager for example.

- Loan or provision of **transport**
- Office or housekeeping **supplies**
- **Volunteering** of employee teams to organise and undertake fundraising activities
- IT, office or catering **equipment**, for example, that may be essential unfunded items on your budget

MAKING THE MOST OF BOUGHT TIME

Funding crises of this magnitude usually have several causes. If you are successful in raising the funds to “buy” yourselves 9 months or more, use them to **ask yourselves some searching questions and make sure the answers are different by the end of that time:**

- Does your Board require **training**?
- Does your Board have the **membership** required to oversee not only your operations but your management and income generation? (What if the Treasurer is absent?)
- Does your Board see not only income and expenditure projections but **cash flow** projections too?
- Do your staff (paid or otherwise) need **training**?
- Do you require to **restructure** your staff/volunteer team?
- Do you need to review **staff terms and conditions**? Do you need to review **rental, contractual or leasing arrangements**? Is there scope for change?
- What are your **Strengths, Weaknesses, Opportunities and Threats**? How often should you review these?
- How happy, healthy, committed and motivated are your **key people** both internally and externally? Is everyone working with your best interests at heart? Are your team members being appropriately **supported and line managed**?

- Are there **other organisations** newly working in your field? What impact are they having on your ability to raise funds?
- Have there been changes in the **political or economic climate, culture or demographics** over the years of your operation which affect the **popularity, fundability or relevance** of your work in ways you must face?
- Have you been putting all your eggs in too few baskets? Or do you have a **comprehensive fundraising strategy**?
- Are you **statutory grant-dependent** and how are other organisations addressing this?
- Do you have a **planned and researched development strategy** for the future which encompasses what you aim to do and how you are going to resource it?
- Are you taking up all the **help** that is available to you from organisations such as ACVO?

STOPPING IT HAPPENING AGAIN

Do not just get over this hump then forget what you have learned.

- **Timetable Board meetings** for a year ahead.
- Set **standing items** on Board agendas to include:
 - * **Financial Reports** including budgeting, income and expenditure projections and cash flow projections
 - * **Fundraising Reports** including opportunities, plans and progress
 - * **Human Resources Reports** including recruitment, development and support of Board, staff and volunteers.
 - * **Business Planning**

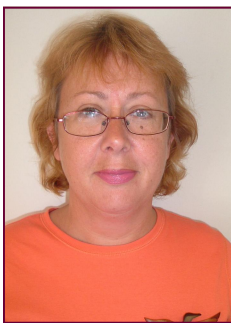
**Keep remembering the value of your work!
Keep believing in your strengths!
Make sure everyone is prepared to think outside the box and remember:**

IT IS A SIGN OF MADNESS TO KEEP DOING THE SAME THINGS IN THE SAME WAY AND HOPE TO GET DIFFERENT RESULTS

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ACVO's Funding Officer provides a full-time funding and business planning advice service to voluntary and community groups, charities and other social economy organisations working or based in Aberdeen.

Support is available as one-to-one guidance, review of applications or business plan drafts, provision of Funding Briefings on the ACVO website, training workshops, facilitation of stakeholder briefings, provision of fundraising and business planning research and information.

ACVO has access to Funder Finder and provides a Funding Database for Aberdeen on its website.

