Newcastle Council for Voluntary Service

Improving your resilience

There are certain actions that can be taken in advance of funding notifications. These include effective governance, organisational planning, sound financial management, good communication and regular reviews.

This document highlights why these are necessary at a time of reduced resources. It looks at what your management committee (Trustees in a registered charity, directors of a Community Interest Company) can do to minimise the impact of cuts on your own organisation and ensure your work continues. It also contains a checklist of what steps to take when dealing with an immediate funding emergency, and an appendix listing relevant organisations and publications.

Newcastle CVS has a range of free information sheets giving more information on all of these matters. You can download them from the website at: **www.cvsnewcastle.org.uk** or request printed copies. We also offer individual advice consultations to voluntary and community organisations. To get advice and further help, please contact the Support and Development team on **0191 235 7037**, email, **information@cvsnewcastle.org.uk**

Governance and planning

The management committee is responsible in law for taking decisions, managing assets and ensuring the organisation works effectively in delivering its aims. The committee agrees and oversees the strategic and business plans that set out the organisation's direction and future development, and manages staff and / or volunteers, where applicable. It creates an appropriate budget taking all costs into account, works out a fundraising strategy to get the necessary funding, and regularly reviews progress.

The committee must take note of developments that affect the organisation, especially when major changes are likely, and be ready to respond and take decisions at short notice. It should take care to communicate regularly with staff, volunteers, members, service users, funders and other stakeholders.

Members of an effective committee will:

- √ Understand their role and responsibilities: it is good practice to provide an induction process and committee member job descriptions
- √ Comply with reporting requirements such as annual returns to Charity Commission and/or Companies House
- √ Hold regular meetings as required by the constitution
- √ Ensure the organisation is acting within its aims
- √ Review the constitution and take steps to amend it if necessary

The committee should ensure:

- √ All necessary policies and procedures are in place, properly implemented and reviewed. The principal policies include equal opportunities and diversity, health and safety, quality, safeguarding, environmental, confidentiality, conflict of interest and complaints; the type of work you do will decide what others you need

√ Adequate insurance cover is taken out, re-accessed annually, for buildings, contents, public and employee liability, professional indemnity and any other needed by your organisation

√ The committee, staff, and volunteers have the appropriate skills to do their tasks effectively. Training and support should be provided if needed; a skills audit is useful

√ Appropriate monitoring systems are in place to help evidence the value and quality of the organisation's work

√ A recognised quality mark is obtained such as PQASSO, or Investors in People: the ISO series of quality standards may be useful should you want to start bidding for contracts

Financial matters

The committee must:

√ Have appropriate financial systems in place to record and monitor income and expenditure

√ List all funding streams and when they will come to an end

√ Receive a regular, usually monthly, financial report

√ Review the budget regularly; for example, how will the rise in VAT affect your costs

√ Allocate all appropriate costs to restricted funds (monies you have been given to pay for a specific piece of work; unrestricted funds are monies you have earned or been given that can be spent on any legitimate costs your organisation incurs)

√ Have a reserves policy and make sure the reserves are invested at the most favourable interest rate

√ Maintain an inventory of equipment

√ If you have not already done so, prepare a cash flow forecast (cash flow is the movement of cash into or out of an organisation, measured over a specified, finite period of time, usually a year) and monitor it on a monthly basis

√ Be aware of the organisation's legal liabilities. You must be able to pay, for example, staff salaries, any redundancy payments, pensions, leases, insurances

√ Identify any non-essential expenditure, should you need to consider reducing overall costs

√ Regularly review staffing levels and use of sessional workers; draw up a restructure and redundancy schedule; consider a recruitment freeze

√ Explore all possible ways of reducing costs; for example review office supplies, review energy use and suppliers - advice from an energy broker is usually free as they earn commission from the new supplier - look at membership subscriptions, consider moving to other premises, reducing working hour

√ When preparing a funding bid, apply full cost recovery wherever possible; include a proper proportion of overheads

√ Consider alternative ways of obtaining back office services such: as human resources; quality, health and safety and finance. In some cases an equally effective service can come from an external source; NCVS trading subsidiary, Ellison Services, can provide a full or partial accounting service including payroll administration, book-keeping, and production of end of year reports

Risk management

Risk is a constant in any voluntary organisation's existence. Risks arising from internal factors - governance, operational matters, finance, and compliance – will be minimised by good management, and external risks identified and assessed. The committee may decide to accept a certain level of risk, or take action to avoid or minimise their impact. Risk management comprises several stages and you should:

√ Identify all the factors, events and situations that could present a risk to the organisation and evaluate them

√ Analyse the identified risks by ranking them, to give yourselves a basis for making decisions on dealing with each one

√ Work out a strategy to avert or minimise identified risks

√ Maintain an up to date risk register that lists each risk, prioritises their probable impact and shows how they are to be dealt with

√ Monitor risks closely and continue to evaluate

Legal structure

Might you need to adopt a different legal structure? The options include:

√ Company limited by guarantee – the form traditionally used by charities, in which each member's liability is limited to a nominal sum - usually not more than £1 - which he or she guarantees to pay if the company has debts on winding up

√ Development trust – a community-led and owned trust that uses self-help, trading for social purpose, and ownership of buildings and land, to bring about long-term social, economic and environmental benefits in its community

√ Community interest company (CIC) – an enterprise set up to serve a community purpose. CICs are subject to company law, but have additional regulations

√ Unlike charitable companies, CICs cannot apply for charitable status. To find out more about CICs, read our information sheet called Community interest company

√ Charitable Incorporated Organisation - a new incorporated form of charity that only has to register with the Charity Commission

Securing funding

Relying heavily on a single source of income obviously makes an organisation vulnerable. The committee should already have a long term fundraising strategy that explains how the organisation will get the resources needed to carry out the work set out in its business plan. It should include an exit strategy showing what will happen at the end of a project or a funding agreement. It may be possible to get some further funding from an existing funder, but almost certainly you will need to consider diversifying, if you have not done so already.

Relationships with existing funders must always be nurtured. In a crisis especially, a funder who supports your work may give extra help as they have already invested in you and will want to protect that investment. A funder who does not know you almost certainly will not.

Whichever funding bodies you approach, they will want to invest their money as effectively as possible, and will therefore be looking for certain elements in your proposal:

√ Evidence of need

√ Proof of your organisation's efficiency and effectiveness

√ Good leadership, sound planning and strategic thinking

√ Evidence of contingency planning and adaptability

√ Up to date risk analysis

√ Exploration of other funding avenues such as, where appropriate, social enterprise projects and/or trading, joint working

√ Staff and volunteers being managed for maximum benefit

Charitable funders

Grant making trusts and foundations are in a very difficult position. Most do not want to and/or cannot step in where public authorities have withdrawn. Traditionally they have funded innovative projects which if successful would - in theory anywhere – be picked up and funded by statutory bodies. This is now an unlikely exit strategy for any applicant organisation.

What might this mean for organisations which have so far relied largely on trust grants? It is possible that some trusts and foundations may now choose to fund existing and proven services rather than innovation. Some may decide to concentrate funding on very specific areas of need, such as preventative work, campaigning, or service provision. Others may be willing to provide financial support to an organisation entering the commissioning field, or for help with the cost of redundancies.

There will undoubtedly be pressure on some of them to fund interim arrangements and restructuring. All charitable funders are independent, so their responses to appeals will vary.

National Lottery

A good source of funding for voluntary and community organisations. However, currently is experiencing a massive demand for its funding.

Bidding for contracts

The government, like its predecessor, is very keen to encourage voluntary sector organisations to bid for public sector contracts. If this is something your organisation could reasonably do, are you ready to bid or do you first need to develop the necessary systems and expertise, and often partnerships?

There are agencies and networks that can advise you on how to find out about contracting opportunities, put together and deliver on a bid, and advise on the practical issues you need to consider; for example, contract payments are invariably made in arrears; would this create a serious cash flow problem?

If you take on a piece of work formerly done by a public sector body, you will be taking on some of that public body's staff with all the commitments of a transfer? The Transfer of Undertakings (Protection of Employment) Regulations (TUPE) protects employees' terms and conditions of employment, including their rights in respect of redundancy payments and pensions, which requires legal advice.

There are opportunities to provide services to the Clinical Commissioning Groups. The government's personalisation agenda will also offer opportunities to voluntary organisations working in the appropriate fields.

Any remaining grant funding from the public sector is likely to go to organisations that have previously shown they can deliver services the public sector agencies prioritise.

However, an organisation's chance of success is far higher if committee members and workers already have contact with local authority officers, and are already involved in relevant networks and partnerships.

Trading

Voluntary organisations, including registered charities, have the power to trade goods and services, including public service delivery contracts, for a social purpose. Registered charities are however subject to the specific regulations described below. The widely used term social enterprise has no legal definition but is an umbrella term describing a variety of different types of organisations, including co-operatives, development trusts, community interest companies and social firms. Any voluntary organisation that earns income through trade and contracts can call itself a social enterprise.

Charities – primary purpose trading

Charities have the power to undertake small trading activities in furtherance of their Aims. This is known as primary purpose trading, and describes trading which contributes directly to one or more of the objects of the charity.

This might be, for example, the sale of goods manufactured by people with disabilities who are beneficiaries of a charity for disabled people. There are specific tax exemptions. The maximum sales turnover you are allowed to make depends on your total gross income. For example, a small charity with a total gross income under £20,000 can make up to £5,000; one with a total gross income over £200,000 can make a maximum of £50,000.

If a charity wants to engage in trade as a way of making money, it must set up a separate trading subsidiary (arm). If you have a small trading idea which would be primary purpose trading, you could try it out to see if it is likely to be a viable source of income. If it works, you could then consider setting up a trading subsidiary.

You should take legal advice if you are unsure how to proceed. If a charity trades outside its aims, however inadvertently, the consequences are potentially severe, as this would be a possible breach of trust. Such a breach would bring a significant risk of the charity's losing its charitable status and HMRC would want to recover tax.

The sale of donated goods, land, buildings or investments is not normally regarded by the Charity Commission or HMRC to be trading, as long as these donations have been given to raise funds for the charity.

There is also an exemption from tax on the profits from small-scale non-primary purpose trading, such as a car-boot sale, as long as all the relevant profits or income are used for the charity's purposes.

Charities – setting up a trading subsidiary

A trading subsidiary is a company, owned and controlled by a charity which has been set up to generate income for its parent charity. This is separate from trading to carry out the charity's aims. A trading subsidiary donates most of its profits (always presuming the trading is successful) back to the parent charity.

The profits made by a trading subsidiary do not qualify for charity tax exemption and are liable to corporation tax. However, tax exemption is available to the parent charity on the income which the subsidiary gives it. Gift Aid is the mechanism usually used to pay funds to the charity, as this reduces the trading subsidiary's taxable income.

Trading subsidiaries are usually funded in the first place by their parent charities, although outside finance may also be obtained. The trustees of the parent charity must be able to justify this financial support as an appropriate investment of the charity's resources.

European Social Fund

Funding from the European Union Structural Funds has significantly reduced in recent years, but opportunities remain to access funding from the European Social Fund (ESF). The aim of ESF is to improve employment opportunities in the EU, enabling disadvantaged people to fulfil their potential through improved skills and better job prospects.

ESF resources are managed by the Skills Funding Agency, Department of Work and Pensions, and the National Offender Management Service. These three agencies procure services by tendering for specific activities.

Tax effective giving

There are several ways by which registered charities can use tax relief to maximise donations received. The best known is Gift Aid, by which a charity may claim relief on tax paid on voluntary donations made by UK taxpayers; however, over £740m goes unclaimed each year.

Legacy giving makes up 15% of all voluntary income received by British charities each year. This is obviously a sensitive area of fundraising but one that may be appropriate for some charities. There tax benefits to the donor as well as to the recipient charity; by leaving a gift to charity in their will, individuals can reduce their inheritance tax liability.

Through the Share Giving scheme, donors giving shares to a charity can get substantial relief on their income tax bill. Through a Payroll Giving scheme, employees can regularly donate a sum of money from their gross salary to the chosen charity.

Other ways of earning income

There are other ways of increasing an organisation's income that a committee could consider, though some may be more appropriate for some types of organisation than others. For example:

- √ Membership fees; raising an existing fee or instituting one for the first time
- √ Community investment bonds, where members of a community buy bonds (shares) in a community enterprise
- √ Renting out property
- √ Raising charges for services
- √ Consultancy fees
- √ Holding fundraising events
- √ Organising a public appeal
- √ Raising money through your website or by using other online mechanisms
- √ Looking for sponsorship or donations from companies (usually labour intensive for relatively small returns)

Loan finance

In the past, loan finance has been largely associated with capital building projects but it may be an option in certain other circumstances, for example:

- √ To bridge gaps between receipt of grant payments
- √ To deal with a temporary cash flow situation when an organisation has to claim grant payments in arrears
- √ To set up a new service
- √ To assist organisational growth

It goes without saying that the management committee should exercise prudence when considering the benefits and risk to the organisation's assets of taking out a loan. It is essential to talk to your bank, and to voluntary sector specific providers such as the Charity Bank, Unity Bank, Triodos or the Social Investment Business. You will need to:

√ Demonstrate there is a market for your proposed service

√ Have a proven track record over a reasonable period

√ Provide approximate costings and a realistic cash flow forecast

Promoting your organisation

How your organisation is viewed by the public, funders, users, partners and other stakeholders is hugely important if it is to continue and develop. The committee should know the organisation's key selling points and promote them, using and building on media contacts. Ways of doing this include:

√ Branding the organisation to encourage recognition and loyalty

√ Running a high profile campaign involving stakeholders and the general public, to raise awareness of the impact of your services and the likely consequences of them being reduced

√ Continuously collecting data and material – surveys, statistics newspaper articles, letters of support and thanks, publicity - to support your case

√ Building an online presence on social websites like Facebook

√ Drawing attention to the added value you bring as members of the local community, especially if your activities use volunteers - be vocal about being local

√ Host open day for stakeholders/funders

Working collaboratively

You may already be working in partnership with one or more organisations in the short or long term to achieve a shared aim, but if not, the committee should consider the pros and cons of doing so. This could be a relatively informal arrangement or through a formal written agreement. Both funders and the public often perceive the voluntary and community sector as overcrowded and liable to duplicate work, so partnership working may increase your funding opportunities. The advantages of working in partnership are:

√ Sharing premises, back office functions and other resources to increase efficiency

√ Increasing ICT capacity

√ Increasing your capacity to improve services for users, using the partner organisation's skills

√ Joint working to procure contracts

√ Joint campaigning for greater impact

The stages in setting up and operating collaborative work are:

√ Preparation; agreeing the reasons for a potential collaboration and assessing the likely risks and benefits for you

√ Deciding who the partner organisation(s) is and establishing standards and systems for effective working

√ Planning together; setting shared aims, identified outcomes, monitoring and evaluation methods

√ Monitoring; agreeing outputs and outcomes, performance indicators

√ Evaluation; in particular, you should try and show stakeholders, especially funders, how the collaboration has achieved more than each partner might have done working alone

In some cases collaborative working may lead ultimately to a full merger of the partner organisations. Generally speaking, a formal merger takes a year or more to achieve and can be a difficult process. It is essential that trustees considering a merger show due diligence when examining the finances of the other party. If they agreed a merger with a charity carrying liabilities that had not been investigated, then the trustees could be held to account for not discharging their duty of care to their own charity.

Checklist – dealing with an immediate funding emergency

The scale of government cuts and their impact on the economy means that almost all voluntary and community organisations are likely to see their funding reduced as the need for their services increases. This is a checklist of the steps the management committee or trustees should take in a funding crisis:

- Call an emergency meeting to examine what happened and decide what actions to take. Explore all options but don't take decisions without exploring options and consequences
- When will grant payments stop, how long - if at all - can you continue with your existing resources?
- Can you reduce or suspend some of your services - is it a cash flow problem that can conceivably be contained or is the situation more critical?
- Stop non-essential expenditure and ensure you have enough money to pay what you are legally required to do, such as tax, salaries, insurances. You must ensure you continue to operate legally, especially if you are considering reducing staff working hours or making staff redundant
- Consider cutting expenditure, at least in the short term, by reducing your level of service delivery, for example by restricting opening hours. If you decide to reduce or stop delivering a service, do not forget to plan for the associated costs such as redundancy payments. Remember also that the service in question will no longer be contributing to your overheads. Bear in mind that reducing the level of your services may damage your reputation
- Investigate any alternative sources of money you can access, drawing on reserves or unrestricted funds
- Negotiate a payment holiday on leases, mortgage or rent
- Discuss the situation in private with the funding body that has cut your grant if there is any chance it will make a difference to the decision. Depending on circumstances, you may want to negotiate using the principles of the Compact
- When you know precisely how much money you need, approach your existing funders and/or supporters and make a case for their help. Do not forget that funders will be concerned with the impact losing key services and facilities will have on your users, rather than on saving your organisation. You will need a plan of action explaining how you will extricate yourself from the crisis, if they fund you in the interim
- Inform your staff about the crisis and involve them in the planning stages for dealing with it. You should also inform all your remaining stakeholders including: volunteers; members; members; funders and your clients/service users
- Consider working with another organisation, in the short term at least, to maintain services to your users and

achieve your outcomes. Is the sharing of premises, equipment, expertise, etc a feasible option. Should you be considering joint bids with third sector and/or private sector companies?

- Talk to Newcastle CVS, we will be able to help you think through some of the issues, give you practical advice and support, and signpost you to other sources of support

If you are thinking about closing down your organisation but hope to re-open in the future, you may be able to keep your charity and/or company status. You should get legal advice on this, and also on insolvency in case this becomes, in the last resort, necessary.

Information and support from Newcastle CVS

Newcastle CVS **information sheets** offer free advice on these and other voluntary sector issues. The following is a small selection of what is available at:
www.cvsnewcastle.org.uk

√ Accounting for charities - guidance on maintaining proper accounting records

√ Benefits of a focus on outcomes

√ Closing a voluntary organisation

√ Community interest company - requirements for registering as a CIC

√ Creating a charitable company - a brief description of how to set up a charitable company

√ Developing a funding strategy - things to consider when developing a funding strategy

√ Funding sources - a guide to the different sources of funding available to voluntary organisations

√ Getting ready for procurement and tendering in the new commissioning world - a guide for those new to procurement

√ Insurance - advice on insurance for voluntary organisations

√ Preparing a budget - step by step advice on planning a budget

√ Your role as a management committee member

√ Role description for management committee members.

Newcastle CVS has a range of support services for voluntary and community organisations that can help you be more resilient or to help in a crisis:

For advice on running your organisation, governance and other issues
Giovanni Spatuzzi 0191 235 7037
Giovanni.spatuzzi@cvsnewcastle.org.uk

For funding advice
Louise McGlen 0191 235 7033
fundadvice@cvsnewcastle.org.uk

For help with financial systems plus community accounting and payroll services
Ellison Services
Jim Dodds 0191 232 7445 (option 2)
Jim.dodds@cvsnewcastle.org.uk

More sources of support

The following is a selection showing the types of information available and is not intended in any way to be comprehensive:

ACAS (Advisory, Conciliation and Arbitration Service)
Aims to improve organisations and working life through better employment relations
www.acas.org.uk

Charities Aid Foundation
Has information on charity finance and fundraising
www.cafonline.org

Charities Evaluation Services
Offers services to help strengthen the quality of voluntary organisation's work and help them achieve better outcomes
www.ces-vol.org.uk

Charity Commission
The Commission publishes an extensive range of guidance for charities including *Collaborative working and mergers, Managing financial difficulties and insolvency in charities*, and *Charities and risk management*
Contact Centre: 0300 066 9197
www.gov.uk/government/organisations/charity-commission

Gov.uk
www.gov.uk

Institute of Fundraising
For information on fundraising
www.institute-of-fundraising.org.uk

NAVCA (National Association for Voluntary and Community Action)
www.navca.org.uk

NCVO (National Council for Voluntary Organisations)
Provides information, advice and support to other organisations/individuals working in or with the voluntary and community sector
www.ncvo-vol.org.uk

New Philanthropy Capital (NPC)
Consultancy and think tank helping funders and charities achieve a greater impact
www.thinknpc.org

NESEP (North East Social Enterprise Partnership)
Provides resources and support for social enterprises
www.nesep.co.uk

Pay and employment rights service
publishes good practice guides, templates and other resources including a redundancy toolkit
www.pers.org.uk

Social Investment Business
SEIF is the UK's biggest social investor
www.sibgroup.org.uk

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