Trust Advice

Briefing on Cash and Covid – Tips for uncertain times

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Introduction

We're in touch with an increasing number of charities working to help them through this difficult time. This is a moment when cash in the bank is rather more valuable than cash promised or on its way. This is the time when an adequate level of reserves may see you through. Sadly, many charities operate pretty much hand to mouth and putting money aside into reserves has never been more than a dream.

"Revenue is vanity, profit is sanity, but cash is king". A quote aimed at the commercial world, but just as relevant to non-profits…

Cash Flow

Working in a non-profit, ideally, we want money in and money out, neatly scheduled so that we remain in credit. However, the real world is not like that at the best of times, and certainly not now.

Robust cashflow management has never been more important. As a trustee, if we could have only one piece of financial information to guide me during this time, it would be the cashflow forecast. This picture of your predicted bank account movements is truly invaluable.

When looking into your finances and cash flow management during these uncertain times, here is a rundown of all things you should be considering:

Money In

1. You don't ask, you don't get. This equally applies to all fundraising efforts.
2. Many funders are now offering flexibility and more support for grantees. Consider – could any arrears funding be provided in advance? Is there any leeway to convert restricted into unrestricted funding? Do they have any additional funding available? Talk to your funders and sponsors.
3. Be on the front foot

4. If you are invoicing local authorities, ensure you get these out promptly; if grant instalments are subject to completion of a delivery report, get this submitted as soon as possible.

Keep clarity on credit control

When cash is not under pressure, the active management of debtors can slide; dust off your procedures and ensure you are clear who is responsible for what. Don't assume payments will come through with the usual speed, others may have cashflow pressures, some may simply not have their team available to process payments.

Yours to keep?

Be clear whether any assistance is a gift/grant or loan/debt and ensure the board is clear on this too.

Identify income changes

We know income will drop with fundraising activities cancelled and charity shops closed, but what other income streams could be affected? Dividends lower impacting investment income, legacies are often unpredictable, could these be slower and lower in value?

Money out

1. Take control
2. Be sure to use the full credit period offered by your suppliers; can one-off lump sum costs be paid through regular smaller direct debits? If cashflow is really tight you may want to cancel direct debits and manage payments to fit the cash available.
3. Necessary or not?
4. Review your budget for discretionary spend – delay or cut completely, but do understand the impact on capacity to deliver, especially when it comes to job roles.
5. Authority to spend
6. Revise your schedule of delegations and what budget holders can order/spend when cash is tight.
7. Consider HMRC Time to Pay
8. Consider using this resource to ease current cashflow.
9. Don't let your guard slip
10. Check paperwork to make sure you are only paying for valid goods and services and beware of requests to change payee details as these might be fraudulent; it's a time of stress and tiredness when mistakes can easily be made.

Relationships and big decisions

1. Stay in touch
2. Maintaining sound relationships with your funders, banks and other partners is more important now than ever. It may be harder to contact some of these but ensure where possible that you are open and honest about your position. Examine your banking

arrangements and loans, check any covenants and recognise if you have breached them or are at risk of breaching them and talk to your contact as soon as you can.

3. You may have money owed by and owed to others who are key to your work. Your preference will be for money to stay in your account however this could damage relationships and you will not want key partners with solvency problems. Understand their financial pressures too and come up with arrangements that work for all.

Take advice

If you own property or hold a portfolio of investments, you may have big choices to make - sale and lease back of property, liquidating investments, raising loan finance etc. Because of this make sure you take professional advice and consider both the short and long term need and scenario plan. Follow advice on decision making and board meeting practice from the Charity Commission.

To borrow or not?

Loan finance is only good if you are confident in your operating model and ability to pay back. It will not solve an underlying structural problem. Loan facilities are taking longer to obtain now so apply as soon as it is needed.

Tools for the job

1. Think, timing
2. Monthly cashflow forecasts are usual and may still work for many. Consider if you need to switch to a rolling weekly forecast as well as keeping a close daily eye.
3. Reflect and learn
4. Watch how things progress against your forecasts to aid learning and fine tune future forecasts.
5. Double check the basics
6. Ensure you cross check the starting point of your forecast to your actual bank balance. Look beyond the obvious – income variations and staff costs will be clearer; some of your variable costs may have gone down e.g. travel; others up, e.g. data streaming.
7. Done is better than perfect
8. The forecast must be ‘right enough’. If you are getting bogged down, ask yourself how much difference to the overall position something will make if you are struggling.

Added value

Alongside the cashflow, it’s useful for management and your charity board to see debtors and creditors – this could just be in total providing an overall sense of liquidity i.e. net current assets = debtors plus cash less creditors. Adding the “run rate” is also useful. This is the number of months’ outgoings you have in the month end cash balance. Showing your cash profile as graphically against previous periods and your target minimum reserves level may be easier for some to interpret

Scenario planning

Ask some key “what if” questions and flex your forecast to understand the implications. Typical time horizons might be six months, nine months or a year ahead.

Wind up

Understand how long it would take, in time and money, to carry out an orderly wind up. Think about what redundancy and other costs would be; what notice periods you have for leases etc; and where.

This is the end of the document:

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