

# Facing a challenging financial future

**A guide for trustees and committee members of voluntary and community sector organisations**

Produced by the Voluntaryworks Consortium  
for organisations working in Bedfordshire and Luton



## **We are all facing a challenging financial future.**

The voluntary and community sector has not been immune to the recent economic downturn. Many organisations face real increases in demands for their services and this will continue as the economy struggles to grow.

The voluntary and community sector is also not immune to the dramatic cuts in public sector funding. Most organisations employing staff have relied on grants or contracts from local authorities, health bodies, and numerous other government schemes and initiatives.

Most organisations will be affected financially, and some will close. Trustees and committee members face difficult decisions in the coming weeks, months and years.

### **How do we go forward?**

This guide has been developed primarily for trustees and committee members of voluntary and community sector organisations, who are ultimately responsible for the organisation and potentially liable for any debts that an organisation incurs. We would recommend that all boards spend time considering some of the following questions:

- What is our financial position? Is the level of reserves we hold sufficient? What is our predicted profit/loss for this and future financial years? Are we financially viable?
- What does the future hold? Where is our future income likely to come from? How secure is that funding?
- What is best for our beneficiaries? What course of action is in their best interest?

### **Some options to consider.**

This booklet gives a brief outline of four of the main options that trustees may have to consider having undertaken a review:

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| <b>Reducing Costs:</b>                    | What can you do to tighten your belt and reduce your expenditure to make the money go further?                                  |
| <b>Diversifying Income:</b>               | An explanation of the varying methods of diversifying an organisation's income - could you generate funding in a different way? |
| <b>Merging and Collaborative Working:</b> | How joining up with other organisations might be the best way forward to ensure your users are supported in the future.         |
| <b>Closing Down:</b>                      | If you have to close an organisation, how to go about it properly, and minimise the impact on staff and users.                  |

Throughout this guide we refer to a number of other publications and suggest you consult these where appropriate. Most Voluntaryworks Consortium members have reference copies of these publications in their resource libraries for organisations to access.

You will also find contact details of Voluntaryworks Consortium members on page 8 who are able to offer support on many of the issues touched on in this booklet.

The present financial climate presents a real opportunity for organisations to reconsider how they should deliver their services in the future. Members of the Voluntaryworks Consortium can also help organisations to undertake strategic reviews etc. Some organisations may find opportunities to grow and develop, despite the bleak public sector outlook.

We hope that you find this guide useful.

**Disclaimer** - The information in this document is for general information only. It is not a complete statement of the law and is in no way intended as a substitute for proper legal advice. No liability can be taken for actions taken, or not taken, on the basis of information in the leaflet.

## Reducing Costs

Many organisations may have to look at implementing a leaner business model to survive the next few years. Advance planning, consultation and communication with all stakeholders is critical to successfully putting your cloth to fit.

Many organisations will need to consider carefully what activities they are carrying out. If you are not being paid to carry out some activities, can you afford to keep on doing them?

### Some options to consider:

**Consult:** Ask the views of your staff and users. They may have some great ideas about how the organisation could run more efficiently and save costs.

**Reduce hours:** You could agree with some or all staff to reduce hours (and therefore pay as well) for a specific period. Part-time working may well be preferable to being redundant.

**Offer unpaid leave:** Some staff may welcome a period of time off, knowing that they are likely to have a job at the end of the period.

**Redeployment:** Could you move staff from quieter areas of your organisation, if there are any, to cover needs elsewhere, to help keep staff motivated and save the costs of recruitment?

**Freeze or cut pay:** A pay freeze or a pay cut is likely to be preferable to jobs being lost. You would need to specify whether the pay cut was intended to be permanent or for a specific period.

**Use some of your reserves:** According to a survey by the Charities Aid Foundation, more than half of charities affected by the recession have dipped into their reserves. Now may be the time to use some of your reserves (if you have any!). Using reserves shouldn't be an alternative to seeking appropriate cost savings, though, or a means of avoiding tough decisions.

**Maximise office space:** Can you reduce the office space you are renting, or rent out space that you do not need. Could staff work from home?

**Shared services and staff:** Consider working with other organisations to share back office or other services. Is it more efficient to share a member of staff to carry out similar activities? Can you reduce costs by bulk buying supplies?

**Redundancies:** It is sensible to develop a strategy for redundancy so that it is there when you need it. Make sure you understand the law, have thought about things in advance and establish a procedure to be used. In particular, make sure you consult about redundancies and use fair and objective selection criteria.

### Find out more:

There are a number of legal obligations you will need to follow if you are contemplating redundancies amongst your workforce. Have a look at the following sources of information:

- *The Good Guide to Employment*, published by NCVO. The Guide contains a chapter on managing redundancy.
- The ACAS advisory booklet, *Redundancy Handling*, available from [www.acas.org.uk](http://www.acas.org.uk)
- *Managing in Recession*, produced by ACAS and the CIPD from: [www.cipd.co.uk/subjects/emplaw/redundancy/\\_hwmngwrfrcs.htm](http://www.cipd.co.uk/subjects/emplaw/redundancy/_hwmngwrfrcs.htm)
- *Russell-Cooke Voluntary Sector Legal Handbook* - Chapter 35
- Organisations should be aware of their responsibilities under Equalities legislation when making decisions to reduce staff/services, close an organisation or make redundancies. An Equality Impact Assessment may be required. For more information, go to [www.equalities.gov.uk](http://www.equalities.gov.uk).

## Diversifying Income

A diverse funding approach encourages organisations to explore income opportunities across a spectrum of opportunities; from charitable donations at one end of the range, through grants, service level agreements and contracts, to social enterprise activity, trading goods and services at the other.

**Why diversify your income?:** Spreading your funding streams can reduce the impact of funding drying up, especially if you are reliant on one or two particular funders. This allows organisations to safeguard their financial future without sacrificing independence or mission. However, every organisation is unique, so diversifying your funding streams is dependent on your particular circumstances.

### Different types of funding:

**Funding from donations:** Donations often help to support areas of work less attractive to funders. There are now a huge number of ways people can donate to your organisation, ranging from collection tins, raffles and lotteries to legacies and payroll-giving. To maximise donations consideration should be given to tax-effective giving in the form of Gift Aid.

**Funding from grants:** Grants are an important form of funding. However funding is often restricted and finding and applying for grants takes time. Grant funding is changing, with increasing levels of competition and some funders are now preferring to offer contracts or loans. Funding may be sought from grant-making trusts, the national lottery or local authorities.

**Funding from contracts:** Whilst opportunities to secure grants for your organisation are likely to be decreasing - or, at best, remaining static - over recent years the voluntary and community sector has been able to take advantage of the increasing opportunities to contract - usually to deliver public services. Contracts are earned income - normally secured as a result of a commissioning/tendering process. They have legal obligations and need to be entered into with proper consideration; however they can be a great way to fund your work where appropriate opportunities exist.

**Funding from trading:** Increasingly, many charities are developing trading activities that directly relate to their charitable objects. There are lots of benefits associated with trading when it is aligned with the social purpose of the organisation. Income from this type of trading is unrestricted, which means that you are free to choose how you use any surplus. Combined with other sources of income, trading can contribute to the long-term sustainability of your organisation. However, trading can also expose your organisation to risks and liabilities. These risks are not just financial; there are also risks to the reputation of the organisation if the trading activities are in conflict with its social purpose.

Any voluntary group that earns most of its income through trade and contracts could choose to call itself a social enterprise.

### Find out more:

- The National Council for Voluntary Organisations Sustainable Funding Project - [www.ncvo-vol.org.uk/sfp](http://www.ncvo-vol.org.uk/sfp)
- Community and Voluntary Service - '*Don't Put All Your Eggs in One Basket - Sustainable Funding Guide*' - [www.yourcvcs.org](http://www.yourcvcs.org)
- Voluntary and Community Action - *Developing a Sustainable Fundraising Strategy* - [www.action-centralbeds.org.uk](http://www.action-centralbeds.org.uk)
- Charity Commission booklets CC37 *Charities and Public Service Delivery*, and CC35 *Trustees, Trading and Tax*

## Merging and Collaborative Working

Joining forces with another charity, either by working collaboratively or merging, may be the best way to ensure that your service users receive support in the long term.

### Why consider a collaboration or merger?

**Service users:** Collaborative working or a merger is often a good course of action to take to preserve services for our users. We can often make economies and additionally gain the further benefits of increased organisational stability. There are other benefits to be had as merger or collaborative working often brings the 2 + 2 = 5 synergistic effect especially around creativity and shared thinking about the way forward.

**Charity Commission:** The Charity Commission encourages charity trustees to be on the look-out for merger and collaborative working opportunities, especially where services to the public will be better served. They have produced guidance about both merger and collaborative working, expressly written for trustees and senior staff (see below for details).

**Size matters:** Government is also encouraging charities to consider merger and collaborative working, especially in circumstances where they need to take this action to access larger and more complex public service contracts that otherwise may not be available to them.

### What steps should I take?

**Do you have the power?:** Check your governing documents to ensure all parties have the relevant powers to act. Does your governing document give trustees the power to wind up the charity and pass the charity's assets over to another charity with a similar purpose? You may also need to have the power to merge and the power to work in cooperation and partnership with other charities.

**Get together:** If you want to explore a merger or collaborative venture then you may want to hold what is called a brokered meeting between the parties concerned. This meeting is usually held with the help of an independent facilitator who supports the meeting to explore information about each party concerned, the potential benefits, and the advantages and disadvantages of each option.

**Do your homework:** Each party should consider undertaking a feasibility study which can include costs, risks, and benefits. With a merger there is also Due Diligence to be conducted. This is the process of examining all the aspects of each of the partners' businesses to ensure the respective boards of trustees know everything they need to know before making the final decision to merge, or not.

**Stay together:** You may want to form a joint working group, consisting of trustees from all the parties involved to oversee the venture, deal with any sticking points that arise, and ensure that appropriate actions are taken. The working group can also take the lead in dealing with lawyers regarding new or amended governing documents or employment law advice etc.

**Keep everyone informed:** It is important that any working group regularly reports progress back to the boards of trustees and that other stakeholders are kept informed at appropriate times.

### Find out more:

- **BASSAC:** 'Collaboration Benefits' is a resource to give you advice about how and why to merge or collaborate: [www.bassac.org.uk/our-programmes/collaboration](http://www.bassac.org.uk/our-programmes/collaboration)
- **NCVO:** The Collaborative Working Unit offers advice on merger and consortia working and they have published a number of advice booklets including one on Due Diligence [www.ncvo-vol.org.uk/advice-support/collaborative-working](http://www.ncvo-vol.org.uk/advice-support/collaborative-working)
- **Charity Commission:** A number of useful publications can be found on the Charity Commission website: [www.charitycommission.gov.uk](http://www.charitycommission.gov.uk), then click on the publications button:
  - *CC34 Collaborative Working and Mergers*
  - *Choosing to Collaborate: Helping you succeed and Making Mergers Work: Helping you succeed.*
- **Cabinet Office:** Guidance on working in a consortium can found at: [www.cabinetoffice.gov.uk/media/107235/consortium%20guide%20final.pdf](http://www.cabinetoffice.gov.uk/media/107235/consortium%20guide%20final.pdf)

## Closing Down

Regrettably, sometimes the only option is closure. This guide explains the issues organisations, primarily charities, need to be aware of when deciding whether to close, and what to do if they have to close.

In a tough economic climate organisations may need to consider closing if they can no longer continue because of reduced funding. If your organisation can no longer pay its debts, you will certainly need to know how to manage closing down properly. Parts of this process will also be relevant to organisations that are merging and transferring all their property into another charity.

### **An explanation of the terms used to describe the stages of closing down a charity:**

**Winding up** is used to describe the process of stopping activities and services, dismissing staff, closing premises, paying bills and all the other things that need to be done when closing a charity.

**Liquidation** is the term used for the formal process of selling or disposing of assets. This can be voluntary or compulsory and the process is different depending on whether your charity is also a company or not. When a charitable company reaches the end of its useful life, for example because it can no longer pay its debts, the Official Receiver or an insolvency practitioner will be appointed liquidator to wind up the charity's affairs, realise its assets and distribute the proceeds to the creditors. For an unincorporated charity it is up to the trustees to carry out the orderly winding up of the charity.

**Dissolution** is the point in time at which the organisation ceases to exist.

**How to make the decision:** You may have noticed some early warning signs such as regularly having to spend reserves because incoming resources are not enough to meet all of the charity's commitments, or pressure from creditors who are chasing overdue payments.

- Identify all the charity's assets and liabilities. To work this out, you will need a detailed cash flow forecast showing anticipated receipts and payments.
- Decide whether the charity can pay its debts as they fall due and whether the charity has enough resources to meet all its immediate liabilities and continue to do so.
- Some new liabilities only arise when the decision is made to close. Don't forget about redundancy costs for staff, costs you may incur to dispose of assets and professional charges.

**If your charity is a company:** When the directors of a charitable company know, or ought to know, that there is no reasonable prospect of avoiding insolvent liquidation they must take every step necessary to minimise the potential loss to the company's creditors. This may involve cutting down or stopping some or all of the charity's activities. You can voluntarily place the company into liquidation. Compulsory liquidation normally only happens when a creditor forces it to happen. Either way, once a charitable company is being wound up it is placed under the management of an insolvency practitioner as liquidator. It is then too late for the directors to take action of their own to bring the charity out of insolvency.

**If your charity is not a company:** The decision to wind up an unincorporated charity will normally be taken voluntarily in accordance with the provisions of the charity's governing document. Although unincorporated charities cannot be compulsorily wound up, their trustees may face legal demands from creditors in relation to liabilities that they have incurred on behalf of the charity.

Where the trustees have no reasonable prospect of avoiding insolvency, it is in their own financial interests to ensure that, by cutting down or stopping some or all of the charity's activities, there will remain in the charity sufficient funds to indemnify the trustees against the cost of meeting all the debts and liabilities which they have incurred in the administration of the charity.

**What to do next:** The procedures to follow are different depending on whether the charity is a company or unincorporated, and whether the charity is solvent (able to pay current debts) or insolvent.

- **Check the charity's governing document** . your constitution, trust deed or memorandum and articles. You may have a power of dissolution in your governing document which will specify what you must do to wind up the charity and also what you must do with any remaining assets. Your dissolution clause may specify that you need consent from the Charity Commission, in which case you must request this before going ahead.
- If there is no dissolution provision in your governing document, you should seek the advice of the Charity Commission.
- If you have a permanent endowment, the rules are more complicated and you should check the Charity Commission guidance and your governing document for more information.
- **Staff notice and redundancy payments:** You will need to give any employees a precautionary or actual notice of redundancy allowing for the proper notice period. You may also need to set money aside to make redundancy payments. See Chapter 35 of the *Russell-Cooke Voluntary Sector Legal Handbook* for details.
- **Future legacies:** Mechanisms need to be put in place to ensure that any future legacies that may be received are still applied to those beneficiaries for whom the money was intended.
- **Accounting records:** You must make arrangements for the charity's accounting records to be preserved and specify to the Charity Commission how these can be accessed. For an unincorporated charity, accounting records must be preserved for six financial years from the accounting period they cover; for a charitable company, the period is three years.
- **Pensions:** If you have an occupational pension scheme, get advice from your pension provider, accountant and legal adviser before winding up. You may have to pay into the scheme to avoid a deficit.
- **Restricted funds:** Grants or donations the charity has received for use for a specific purpose must be returned to the grantors or donors, or else the grantors or donors must agree to the way the assets will be treated.
- **Liability:** The trustees remain responsible for decisions made during the period they held office.

#### Find out more:

- There is excellent guidance in the *Russell-Cooke Voluntary Sector Legal Handbook* Chapter 24: Financial Difficulties and Winding Up.
- If your charity is a company, you should read Companies House guidance *GP08: Liquidation and Insolvency* at [www.companieshouse.gov.uk/about/gbhtml/gpo8.shtml](http://www.companieshouse.gov.uk/about/gbhtml/gpo8.shtml). Chapter 5 deals with members voluntary liquidation (when the company is solvent) and creditors voluntary liquidation (when the liquidation is still voluntary but the company cannot pay its debts). Chapter 6 deals with compulsory liquidation.
- All registered charities should read Charity Commission publication CSD-1077A: *Dissolution and removal from the register of charities* at [www.charitycommission.gov.uk/library/guidance/csd1077a.pdf](http://www.charitycommission.gov.uk/library/guidance/csd1077a.pdf)
- If you are a small registered charity (income under £20,000 and gross assets less than £200,000) and are not incorporated, use Charity Commission publication CSD-1344A: *Guidance on dissolving a small charity* - [www.charity-commission.gov.uk/library/guidance/csd1344a.pdf](http://www.charity-commission.gov.uk/library/guidance/csd1344a.pdf)
- See Charity Commission publication CC12 *Managing financial difficulties and insolvency in charities* at: [www.charity-commission.gov.uk/publications/cc12.aspx](http://www.charity-commission.gov.uk/publications/cc12.aspx)
- Additional useful information can be found in Charity Commission publication RS6: *Managing key events in the life of a charity* - [www.charitycommission.gov.uk/publications/rs6.aspx#25](http://www.charitycommission.gov.uk/publications/rs6.aspx#25)
- Organisations should be aware of their responsibilities under Equalities legislation when making decisions to reduce staff/services, close an organisation or make redundancies. An Equality Impact Assessment may be required. For more information, go to [www.equalities.gov.uk](http://www.equalities.gov.uk).

## About the Voluntaryworks consortium

Voluntaryworks brings together local voluntary and community sector support agencies to offer integrated services across Bedford, Central Bedfordshire and Luton.

Members of the consortium:

- Bedford Race Equality Council
- Bedfordshire Advice Forum
- Bedfordshire Rural Communities Charity
- Community and Voluntary Service
- Voluntary Action Luton
- Voluntary and Community Action
- Voluntary Organisations for Children, Young People and Families

**Further information on the consortium can be found at [www.voluntaryworks.org.uk](http://www.voluntaryworks.org.uk)**

The following consortium members are able to offer intensive support to voluntary and community organisations on many of the issues discussed in this booklet:

### **Community and Voluntary Service**

Works across North and Mid Bedfordshire

43 Bromham Road  
Bedford,  
MK40 2AA

Tel: 01234 354366

Contact: Ian Curtis ([ian@yourcvs.org](mailto:ian@yourcvs.org))

### **Voluntary and Community Action**

Works across southern Central Bedfordshire

Bossard House, West Street  
Leighton Buzzard  
LU7 1DA

Tel: 01525 850559

Contact: Rizwana Zaman or Sara Greenwood  
([funding@action-centralbeds.org.uk](mailto:funding@action-centralbeds.org.uk))

### **Voluntary Action Luton**

Works across Luton

15 New Bedford Road  
Luton  
LU1 1SA

Tel: 01582 733418

Contact: Jean Myrie ([jean.myrie@valuton.org.uk](mailto:jean.myrie@valuton.org.uk))

### **Bedfordshire Rural Communities Charity**

Works across Bedfordshire's rural areas

The Old School, Cardington  
Bedford  
MK44 3SX

Tel: 01234 832614

Contact: Sue Norman ([suen@bedsrcc.org.uk](mailto:suen@bedsrcc.org.uk))

### **Bedford Race Equality Council**

36 Mill Street  
Bedford  
MK40 3HD

Tel: 01234 350459

Contact: Glenis Orkisz ([glenisbrec@btconnect.com](mailto:glenisbrec@btconnect.com))

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