Financial management

Guide for community and voluntary organisations

FINANCIAL MANAGEMENT

If you want your organisation to be successful in the longer term, managing your finances is key. Any decision-making for your organisation's work and activities should be informed by its financial situation and many funders will only invest in organisations that can prove they can look after the money.

What do I need to consider?

The following bullet points are a starting point of things you should consider.

- **Financial strategy** – having a strategic financial plan can play an enormous role in helping you to achieve your vision and mission. This should include a risk assessment to minimise any risk and maximise financial opportunities.
- **Cash-flow forecasts and budgeting** – keeping track of your income, spending and planning ahead is one of the most important parts of managing your finances.
- **Accounting** – the system of recording, reporting, and analysing your organisation's financial activities. It includes things like payroll, book-keeping, financial planning and an annual record of your accounts. There are many services and models that can help you to manage your financial records.
- **Payroll** – if you are a smaller organisation that employs paid staff, you can use a payroll service to calculate PAYE (Pay as You Earn), national insurance and to issue pay slips. This may also be done by the treasurer or a paid finance worker.
- **Audit** – an audit is an examination of your organisation's financial accounts (either internal or external).
- **Full cost recovery** – this means recovering the full costs associated with your service or project (including all direct and indirect costs that your organisation will incur when delivering a service).
- **Managing resources** – getting the most from the resources you have.
- **Reserves** – your organisation should aim to set aside between 15-25% of annual expenditure to increase your financial sustainability and meet any unexpected costs (such as sickness, maternity pay or redundancy).
- **Insolvency** – any organisation should have a plan of what you would do should your organisation fail to pay any debt or meet its financial obligations.
- **Tax** – if you are a registered charity, you may be entitled to certain tax reliefs and you must make sure that you are aware of your tax situation.

How does it work?

Your committee, board or trustees are ultimately responsible for managing your organisation's finances, though staff may be involved in drawing up the budget on a practical level and managing everyday costs. The committee, board or trustees should receive regular financial reports that are clear and accurate and they should approve the annual budget before the start of each financial year.

Whilst the treasurer is responsible for reviewing the finances and ensuring they are on target, many book-keeping and other tasks can be delegated to paid staff and the overall financial responsibility is shared by the committee, board or trustees as a whole. After all, the term 'trustee' means someone who is trusted with charitable money. For smaller organisations without paid staff, the treasurer may take on a variety of the financial tasks on a voluntary basis. For a larger organisation, this time may be more focused on managing finances as they outsource tasks to paid staff or accountancy firms.

What is the role of the treasurer?

The treasurer is responsible for reviewing the organisation's overall finances. A good treasurer will know what the current financial situation is and have an idea of where the organisation is going over the next few years and how it will be financed. Specific treasurer duties might include:

- ✓ **Funding applications** – checking the budget of any funding application to ensure the organisation has sufficient resources and that the application fits with the organisation's objectives. In some cases, they may also choose to write funding applications.

- ✓ **Cheque signatory** – along with at least one other committee member, board member or trustee, the treasurer is usually someone able to sign cheques on behalf of the group. They do not necessarily have to sign each individual cheque, but are responsible for making sure that bills and invoices are paid on time.

- ✓ **Book-keeping** – the treasurer should check the accuracy of any book-keeping at least twice a year, including bank reconciliation. Bank reconciliation is a check to ensure that the money in the accounts book matches that on a bank statement.

- ✓ **Annual returns** – the Charity Commission requires any registered charity to complete and send annual returns, along with a copy of the annual accounts nine months after the end of the financial year. There may be stricter deadlines for some organisations, such as companies. They may also have to complete a corporation tax return (CT200).

- ✓ **Management accounts or financial reporting** – presenting quarterly updates to the committee, board or trustees on the budget, comparing actual income and expenditure with what was planned and highlighting any differences. The treasurer should ensure that all members of the committee or board understand the budget because it is their main financial tool for financial planning. The updates also indicate the financial health of the organisation as it should show any significant underspending or overspending. The update may have been prepared by the treasurer, book-keeper, finance worker or volunteer, depending on the size of the organisation.

- ✓ **Completing the annual accounts and presenting them at the Annual General Meeting (AGM)** – the annual accounts are an overview of your organisation's finances over the past year, a summary of the financial prospects for the future and an opportunity to feedback to members and key partners. Some use it to demonstrate viability for further funding. Depending on the size of the organisation, the annual accounts may be prepared and/ or checked by an independent examiner or auditor. The treasurer should make sure that auditors have any appropriate records and information, as well as checking that auditors complete any work on time. A finance worker may also attend the AGM to help answer technical questions about the finances.

CASH FLOW FORECASTS AND BUDGETS

Managing money is vital to the success of any organisation. It is especially important when money is tight or when you are managing grants or contracts. Your accounts should outline any money coming in and out of your organisation in a given year.

Cash flow forecasts

Cash flow forecasting is the estimation of income and expenditure of your organisation over a given period (including timings and amounts). It is a tool to plan your organisation's expected budget over a period of time (such as six months). Whilst it can never be 100% accurate, it does provide an indication of where financial problems may occur and gives you time to plan and manage any financial risks.

In the example below, the group's total expenditure over the next six months is well below their income for the period (£1,520 compared to £5,240). However, because the grant doesn't come in until the end of the period (June), there is a risk that their bank account becomes overdrawn before they receive the grant.

By using cash flow forecasting in this way, the group or organisation can identify a possible shortfall in its finances and take steps to remedy the situation before it becomes a problem.

Expenditure	Jan (£)	Feb (£)	Mar (£)	Apr (£)	May (£)	Jun (£)	Total (£)
Rent	200	200	200	200	200	200	
Phone	50			50			
Gas/Electric		30			30		
Insurance			200				
Total	**250**	**230**	**400**	**250**	**230**	200	1560
Income							
Subs	40	40	40	40	40	40	
Grant						5000	
Total	**40**	**40**	**40**	**40**	**40**	5040	5240

Table: Example of a cash flow forecast for a community group with a small pot of funding.

Budgeting

A budget generally refers to a list of all planned expenses (costs) and revenues (income). Budgets can be produced for a whole organisation, or for individual projects (or both). A budget should include an overall figure for the cost of the project and any income that has been secured to cover these costs.

When producing a budget, being realistic can help a great deal, even if you do not have an exact figure for every detail. Estimate costs that you don't have exact figures for, but be as exact as you can. Find quotes for similar products or services through the internet. Consider all relevant or likely costs that may affect the overall budget.

Have a breakdown of costs for each service or function, including the costs of admin and rent for each of your projects. Never underestimate your likely costs in order to make your project seem less expensive than it really is. This will only lead to a shortfall in finances later on and create problems for you when trying to deliver the project. Similarly, try not to overestimate costs, especially if you are looking for funding to cover these as this may reduce how much support you are offered if it is believed that others can do it more efficiently.

CHARITIES AND VAT

Charities and other not-for-profit organisations are generally subject to the same VAT rules as any other organisation. There are, however, a number of VAT reliefs and exemptions available specifically for charities (subject to certain conditions and restrictions).

Are you a registered charity?

It is important to note that only registered charities are entitled to charity VAT reliefs. Not all non-profit making organisations are registered charities, though there are some VAT reliefs and exemptions available for certain types of not-for-profit organisations, subject to the HM Revenue & Customs department.

Is my charity exempt from paying VAT?

There is no blanket exemption for charities from VAT. Like other organisations, you will be charged VAT on many of your purchases and if you provide goods and services in return for payment, you may be required to register for VAT. However, there are some VAT reliefs on certain goods and services which you might purchase and on some income, such as certain fundraising events. There are also some specific VAT reliefs for goods bought for people with disabilities.

So do I need to register for VAT?

As a charity your income might come from a number of sources. It might be from non-business activities (for example, when you receive a purely voluntary donation, usually in the form of cash) or business activities (for example, when you supply goods or services to someone in exchange for payment) or a mixture of both. If you do have business activities, these may be taxable.

Your organisation must register for VAT if the income from your taxable supplies (those business activities that are taxable) reaches £82,000 in a 12-month period (current level at March 2016). The point at which you have to register and start to pay tax (ie the £82,000 mark) is known as the VAT registration threshold.

You must also register for VAT in certain other circumstances. Though remember that there are some exemptions for charities and that some goods and services are exempt from VAT.

How do I know if it is taxable?

There are five different types of supplies and three of these are taxable:

1. Taxable - Zero rated (0%) – including the sale of donated goods
2. Taxable - Standard rated (20%) – including training and consultancy services
3. Taxable - Reduced rate (5%) – including gas and electricity that are used for non-business activities (for charities)
4. Exempt (business supply but not considered as 'taxable') – including welfare services provided for older people other than for a profit
5. Outside the scope of VAT ('non-business' activities) – including grants, legacies and donations

Once you are VAT registered you have to charge VAT at the relevant rate on your taxable supplies, i.e. things you sell that fall into categories 1, 2 and 3 above. However, VAT can usually be reclaimed where it directly relates to your taxable supplies (the activities on which you charge VAT).

For instance, if you are making and selling tables, you might be able to reclaim the VAT that you have paid on the wood used to make the tables. Because you will be charging VAT on your new finished product (your table), the tax is passed on to the consumer and it means that VAT is only paid once throughout the process of creating and selling your product. You cannot reclaim VAT on any purchases, which relate to your non-business activities, such as grant-funded activities.

If your turnover from taxable supplies is below the registration threshold, you can still apply to register for VAT voluntarily (and charge VAT on your goods and services). If you are thinking about voluntary registration you need to consider whether you will be able to claim back sufficient VAT to justify:

- ✓ Increased costs for your goods or services to those who may not be able to reclaim it (charging VAT on a training course you deliver for instance, would put the costs up for your clients)
- ✓ Increased administration and accounting costs
- ✓ Penalties and surcharges if you get it wrong

If you are primarily grant funded, it is unlikely that voluntary registration will be beneficial. Where your funding is a mixture of fees, grants and contracts, the balance is more complicated. You should monitor your taxable income to see if it crosses the threshold for registration, and think carefully about registering voluntarily if you do not need to. If you have no business activities or your only business activities are exempt from VAT, you can't register for VAT.

GLOSSARY

Financial strategy – A plan of your organisation's finances for the future

Treasurer – The committee member, board member, or trustee with overall responsibility for the finances

Financial reports – written report detailing the organisation's financial situation

Budget / Budgeting – generally refers to a record of all expenses (costs) and revenues (income)

Income – payment received for goods or services, or from other sources, such as rent or investments

Expenditure – payment for goods or services that are purchased, costs that are undertaken, or money going out of your organisation through cash, invoices, vouchers or equivalent

Cash flow forecasting – estimation of income and expenditure of your organisation over a given period (including timings and amounts)

Business activities – providing goods or services to someone in return for payment

Taxable Supplies – those business activities (goods and services) that are taxable, meaning you have to charge VAT on them

VAT registration threshold – the point to which you need to register for VAT and begin charging VAT on your goods and services

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