

## Assessing grant applications: beyond the balance sheet

### Background

The current economic climate may be making some grant makers rethink their approach to the financial assessment of applicants. The need for every pound spent to go to solvent and sustainable organisations appears more pressing. Assessing this seems more difficult in the context of cuts in public sector spending, increasing demand for the services of third sector organisations, all within the current wider recessionary context.

But all is not doom and gloom. Challenging times create opportunities as well as risks, particularly with the increased demand for services. So the current climate is as much a time of opportunity, as it is of risk.

Whether you are considering the upside or the down of uncertainty, should you be rethinking the approach you take to the financial assessment of applicants? At the heart of this question lie your objectives, grant making strategy and attitude to risk. These will determine your approach.

This article looks at the aspects to bring into your assessment, considering both accounting and people-based perspectives. Secondly we look at what will define the extent of the assessment you choose to do.

### Elements of financial assessment

Traditionally the financial assessment has focussed on statutory accounts, budgets and an organisation's internal financial reports - management accounts.

Statutory accounts act as a consistent starting point for assessing the financial position of applicants. They also have the advantage of being subject to external assurance, depending on size and type of the legal entity. They are, however, looking backwards and may be considerably out of date by the time you review them. A reader can risk becoming bogged down with the jargon and terminology. Also, some accounting practices do not reflect the real world such as the valuation of fixed assets and their depreciation. Other accounting practices may make it difficult to understand the true implications of an issue, for example pensions. Funders often additionally ask for budgets, forecasts and management accounts for review. These are more up to date than statutory accounts, but will not be prepared in consistent formats across organisations.

The first perspective can be assessed by review of the accounts (statutory and management) and some questioning.

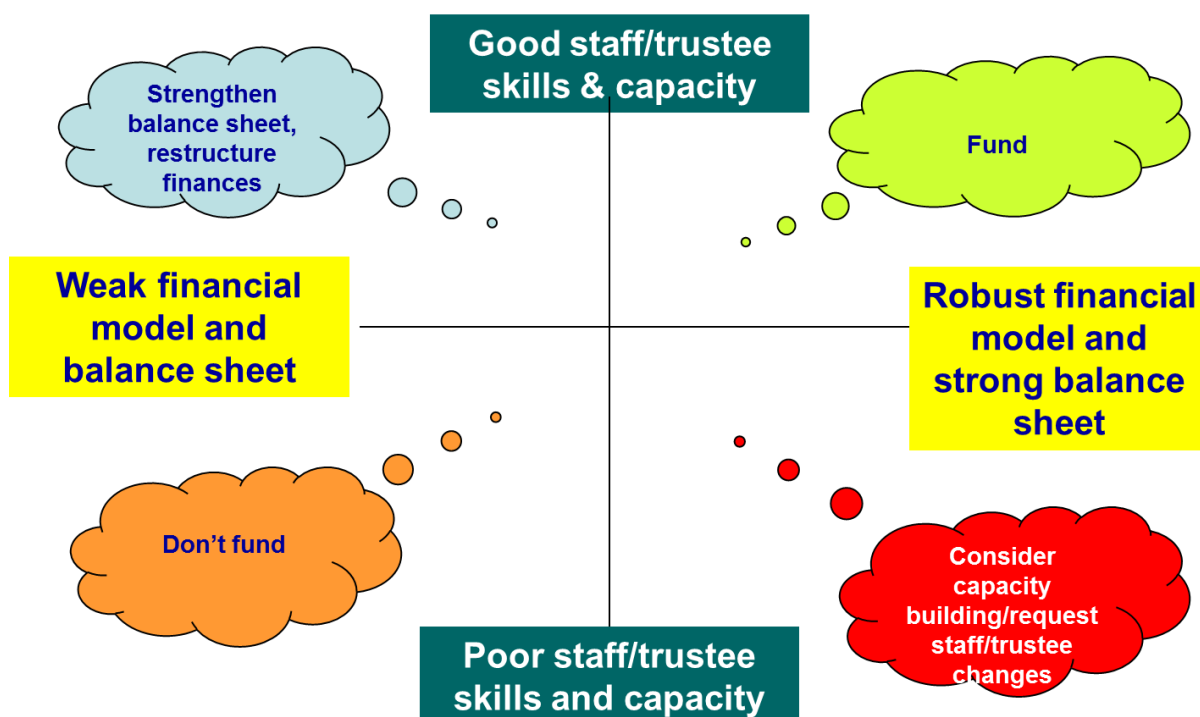
<b>Robust financial model and balance sheet</b>	<b>Weak financial model and balance sheet</b>
<ul style="list-style-type: none"><li>• Positive net current assets and net assets</li><li>• Positive unrestricted funds</li><li>• Surpluses or planned/managed deficits across projects/activities</li><li>• Well-articulated reserves policy</li></ul>	<ul style="list-style-type: none"><li>• Net current liabilities/net liabilities</li><li>• Low/negative unrestricted funds</li><li>• Deficits and poor understanding of the cost profile on projects/activities</li><li>• Lack of or poor reserves policy</li></ul>

It is tempting to look for magic answers, especially when the answer to such questions will be numbers. But while numbers can help paint a picture, they will not give you absolute answers. This is why the second perspective is critical: namely it is the staff team and trustees who are key to financial success.

### Elements of people-based financial assessment

There is a sense that to date, too much assessment has focussed on the accounts. Time on this needs to be reduced with more time spent on the second perspective. The first perspective relates to the financial position and business model and of the applicant; the second perspective relates to the skills and capacity of its staff team and trustees.

Assessing an effective applicant:



Evidence that the staff team and trustees are effective in this area will appear through a range of indicators, none conclusive on its own, but each building part of the picture. These include:

- Clear financial objectives and plans as well as routine budgets
- Well worked policies on reserves and investments, and risk management
- Regular and timely financial monitoring information covering income and expenditure compared to budget, balance sheet information and a cashflow forecast
- Financial controls such as bank reconciliations, authorisation procedures; all in the context of ensuring segregation of duties where possible
- Staff and trustees with financial knowledge and experience

The aim of all the above is to strike a balance between these two perspectives and avoid obsessing about either one to the exclusion of the other.

A standard checklist covering both perspectives will be a useful tool but will not be the right approach unless judgement is applied to the answers. Individual "No" answers or causes for concern will not necessary imply a problem – these need to be considered in the round. The key is to be clear what questions you want to ask, but more importantly how you will interpret the answers.

## Determining the extent of financial assessment

Your objective will be to have sufficient procedures in place at application stage, to ensure that any risk to you, the funder is managed adequately. Remember: you cannot eliminate the risk but you can manage it to an acceptable level. What you see as an acceptable level of risk should be encapsulated in your grant making policy. The lower your risk appetite, the more extensive your assessment is likely to be.

Your attitude to risk will be determined by a range of issues. This will include the nature of the funding. If you are funding in the short term to achieve impact immediately, you are likely to be less concerned about an organisation's financial position than for an activity which you wish to see sustainable over the medium to long term. You may have a greater risk appetite if you are seeking to support ground breaking work where your desire to "give it a go" overrides other concerns. Here your belief in the people to deliver is likely to be more important than their financial starting point. Other aspects affecting your attitude to risk may include public profile and source of funds. Funding from the general public rather than an existing endowment fund may make you more risk averse regarding a funded organisation failing.

Your attitude to risk will also have to take into account what is practical and possible for your team and for applicants. Poorly focussed assessment processes will be a burden for all in terms of time and money. There is also a need to consider the skills set of your team to undertake the assessment. Care should also be taken to ensure that any change in approach is a refocusing rather than simply doing more.

## Conclusion

Any assessment process will only give you reasonable assurance rather than an absolute guarantee. As a funder, your starting point for any decision on approach has to be consideration of your objectives, grant making strategy and attitude to risk. The statutory accounts do give you some of the basics, but will be out of date. To gain more information on financial sustainability, the underlying financial model of the applicant needs to be considered as well as the financial skills and capacity of its staff team and trustees to manage your funds. On top of this you will need to consider your own team's capacity to adopt a refocused assessment approach.