



Kate Sayer: What trustees should look out for as austerity holds sway

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Kate Sayer

No trustee wants to watch their charity go under, yet it is tough just now after several years of austerity. So what should trustees be looking out for?

Restricted funding means staying within budget If your charity gets restricted funding, it is important that it covers all the costs of the activity, including a share of the core costs. But it also means that any overspend on a restricted fund has to be funded from unrestricted income or reserves, so regular monitoring by managers is needed.

Understand how costs are being allocated between funds You don't want to get to the end of the financial year and find that the allocation of costs leads to a deficit on unrestricted funds and a surplus on restricted funds. This means you have borrowed from Peter to pay Paul and is not allowed. It will also mess up the monitoring of restricted funds.

Cash in the bank might not mean you are solvent Charities often hold both restricted and unrestricted funds. By their very nature, the cash-flow profile of restricted funds is usually that you receive the funds up front. So if you are holding bank balances, you need to understand how much of that cash relates to restricted funds. Of course, if you plan to spend

it on the restricted activities, that's fine. But you can't dip into restricted funds and use them for unrestricted spending.

Are your reserves cash-backed? You can be misled by a balance sheet with positive net assets and strong reserves, if the reserves are tied up in fixed assets or held as debtors. You need cash to pay the bills. Make sure you have credit control procedures in place and get information on the age of debtors.

Cutting costs does not always save money It depends how costs are funded, but if you lose income as well as costs, you might not be saving as much as you think. With restricted funds, you are no better off if you cut the activity. Similarly, cutting costs takes time to have effect. For example, cutting staff will cost you more at first in redundancy pay, plus you do not have the benefit of their output.

Balancing charitable activities and management costs All charities have core costs. To be financially healthy you need to have sufficient charitable activities to justify your management structure. You cannot expect funders to pay for additional management costs because your charitable activities have reduced due to funding cuts. For example, if you grew the management and admin team and took on bigger premises for a new contract two years ago, you might be facing problems as that contract comes to an end: scaling back is harder than scaling up.

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