Business Charity Awards
Book Now

Third Sector

Kate Sayer: How to develop a treasury policy

15 April 2019

You need to balance your returns from cash deposits with your need for cash in the short term

Kate Sayer

If your charity has some cash over and above your working capital needs, you might want to develop a treasury policy, which helps to maximise the return from short-term cash deposits while ensuring that cash is available when you need it.

The first step is to understand your cash flow. Consider the timing of major sources of income and expenditure. For example, a membership organisation might receive subscriptions at the beginning of the financial year but have steady expenditure throughout it. It is cash-rich at the beginning of the year, but the bank balance gradually diminishes over the year. Similarly, some charities receive substantial grant funding in advance, so seasonally they will have large bank balances.

Planning your cash flow for the year ahead and understanding the pattern of receipts and payments will help you to identify how much you have available to place on deposit and for how long. You might need to allow for some unplanned events so that you can access cash quickly as a contingency.

It has commonly been the case that deposits placed for a longer time earn a slightly higher rate of interest. However, some products allow for quick access and still pay a competitive rate of interest. You can search on comparison websites to find the right combination of interest rate and access to your money.

Placing your money on deposit in a high-street bank or building society is low risk, but not entirely risk-free. To reduce the risk, you can put smaller amounts into several different accounts. The Financial Services Compensation Scheme covers individuals and small unincorporated charities for deposits in UK regulated banks and pays out a maximum of £85,000 for each account. Make sure that the accounts are not within the same banking group because the limit applies to each institution.

Some of you will remember the Icelandic banking crisis: many charities had deposited significant sums, attracted by the high interest rates. They did eventually receive payouts from the administrator to cover the majority of their deposits. However, it is worth noting that not all accounts are covered by the FSCS and the old adage holds true: if it seems too good to be true, it probably is.

Organisations that operate internationally will also need to consider how they manage foreign currency transactions. Broadly, the most cost-effective and least risky way to manage several currencies is to receive and hold currency for your planned expenditure. In other words, if you have an office in New York, you should hold some dollars received to fund the payments. Minimise the exchange transactions because there are high transaction costs and you are subject to the volatility of exchange rates. Whatever currency your costs are in, try to have some income in that currency to avoid the volatility hitting your accounts.

If you have an ethical investment policy and want to ensure that your money is doing good at the same time as earning interest, then you can check the Good Shopping Guide online.

Kate Sayer is senior consultant at specialist auditors Sayer Vincent

Topics: FINANCE GOVERNANCE KATE SAYER GOOD PRACTICE