Finance Functions in Charities: Exerting financial control through the art of compromise

- Alisa Binnington

If the credit crunch has taught us one thing, then it is this - the more complex an organisation, the greater the effort required in keeping its finances simple and transparent and the greater the need to do so…and, as we know, charities are indeed very complex things.

Unlike the commercial sector, charities are out to eliminate demand for their services rather than grow it. Throw in the added complications of getting someone else to pay, preferably not once but several times, and then finding willing volunteers ready to help free of charge but on the charity's terms and at face value, you do not have a compelling economic model. You do have a complex one!

So what does this mean for the finance function and its simplicity agenda? The easy answer is it can make life very difficult.

Think of your finance function as a hierarchy with three levels:

Level one: Nuts and Bolts is all about the nuts and bolts accounting processes and financial controls – the foundation stone. It's where the majority of your finance people will be deployed, posting invoices, receiving cash, making payments, paying people. Ordinarily this would be the level where there is no room for compromise. You need a good financial controller to oversee it, as if you get this wrong, the rest crumbles.

In a perfectly centralised organisation this is relatively straightforward to achieve – all the key financial controls are under one roof; it's easily scale-able up or down as the organisation expands or contracts and it means that the quality of the financial data can be assured. Even an organisation decentralised to divisional level can work if the same structure and processes can be rolled out, although arguably not a very cost effective route. But in the real world the centralised structure is the nirvana that finance directors can but dream of having. In the real world charities are often decentralised, not through choice but evolution, with local treasurers, and worse still local treasurers who are volunteers! The challenge for the finance function is assessing the financial risk and bringing what you can under the centralised umbrella.

“ Centralisation has been a long journey, and one that isn't over yet. ”

Take WRVS for example. Over 1,700 projects ranging from retail shops with £1m turnover down to lunch clubs with as little as £50. Centralisation has been a long journey, and one that isn't over yet. We were, and probably still are, the organisation with the most bank accounts in the UK (not something I was ever proud of). So many in fact that we broke our bank's banking software. None of this was by choice or design, it was where WRVS had come from. Hundreds of lunch and social clubs, independently run by volunteers under the banner of WRVS, each with their own petty cash tins and local bank accounts probably held in the name of the volunteer, were suddenly required to be included in the WRVS accounts. They were used to doing their own thing. They distrusted 'the centre' and rebelled against the need to report even on an annual basis. However simple we made the annual returns, local treasurers failed to complete them correctly, or at all, or took months to do it. So what did we do, we compromised.

> "Planning for uncertainty...has to be the name of the game going forwards."

Projects with the highest volume and value of cash transactions were gradually centralised – this meant that their local bank accounts were closed and whilst their purchase ordering was still local, purchase invoices were processed and paid from the centre. This opened up electronic processing for us with major suppliers, and enabled us to secure significant rebate income. Projects had to account for their cash on a weekly basis, meaning we could get on top of discrepancies quickly and have the evidence to hand when light fingers were at play. In smaller retail projects though we still had local treasurers banking locally. Cash levels were not high enough to justify frequent Securitas / Loomis pick-ups. We developed late returns reports, but relied on operational managers to chase these up and be prepared to think the worst of people, even if some of them were volunteers. Generally managers found this difficult, but there will always be opportunists and when times are tough, temptation will get the better of people.

For smaller community projects it has been about getting visibility – what bank accounts they have and in whose name; enforcing the annual return process; seeing copy bank statements; explaining to volunteers their legal obligations…but really once a year is not enough.

Level two: Analysis in the hierarchy is about understanding your finances and producing numbers that create the right debate. This is the level where a handful of high quality individuals can make all the difference. When so much time and effort is put into getting the basic data in one place, there often seems little time to slice it and dice it in meaningful ways and reflect upon what the numbers are telling you. We find time for the top level, but do we really understand the organisation's cost base and what drives it? The larger an organisation becomes, the more distant those at the top get from the sharp end. Without understanding the cost base, how can we strip out duplication of effort and when times are tough how will we know which costs should be first to go?

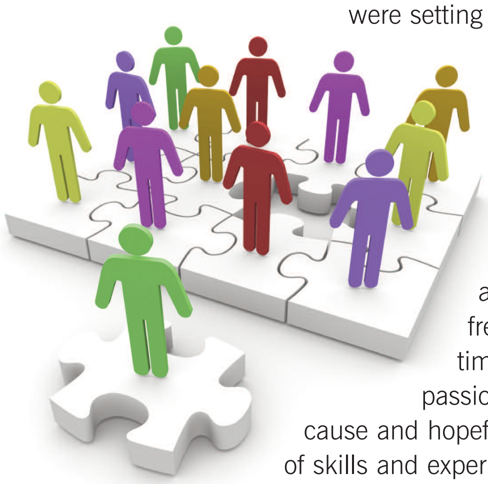
As charities, understanding the origins of our income streams is also fundamental. Traditional accounting systems are built around activities, for example reporting by company, product line or product. As a charity, we fit these accounting systems around our organisation structure as best we can – we often try to make them management accounting systems too - but when we need to, let's say, report by funder, it can all become quite unwieldy. Could you at the touch of a button analyse the source of your income streams and how they are deployed? It's easy when you are small, it's more difficult to do when you are devolved with often multiple funders across many projects. But if you are out to retain or attract new funding, you must be able to account for how you have deployed the resources given to you. But you don't want armies of accountants endlessly crunching numbers, it's as soul destroying for them as it is expensive for you.

> "The larger an organisation becomes, the more distant those at the top get from the sharp end."

One solution is to invest in a data warehouse. This would require every financial transaction to be tagged with a funder code, sucked out of the accounting system into a database, where reports can be designed and built to analyse your organisation's data any way you want. Wonderful things called free analysis codes let you custom fit the management reporting to your organisation. Having helped implement one of these, I know how liberating they can be. It enables all key decision makers in an organisation, irrespective of function, to analyse the data they need to make better decisions. I also know how its implementation will show up any quality issues in the underlying data.

Of course such analysis only looks at what has gone before, often the best measure of what lies ahead. However does this hold true in the current environment? Planning for uncertainty, as if charities don't do that all the time, has to be the name of the game going forwards. It's not about getting the right numbers, it's about spotting the right trends. A deep understanding of the volatility and source of your income streams and the flexibility of your cost base will help you spot those trends.

Level three: Strategy and debate. For me this level embodies governance and strategic decision-making. If you were setting out to optimise decision-making and operational efficiency within a charity, would you start with what we've got? On the plus side, a board of trustees freely gives of its time, is mostly passionate about the cause and hopefully has a breadth of skills and experience to take the charity in the right direction. The other side of the coin is they are non-executives, distant from the grass roots – sometimes too distant, occasionally too close (especially if they are executives in their day job or even volunteers), they meet on an infrequent basis and can be dysfunctional as a consequence of this, but trustees always have the last say because at the end of the day they are held responsible for what comes to pass. This only works if there is 100% trust between trustees and the executive team. Trust will often build over time but continual rotation of trustees can erode this. It is also time intensive for the executive - turning papers around and trying to influence trustees to approve what they have already decided they want to do. Compare this with a normal governance structure. Here the chairman and non-executives are used to both mentor chief executive and the executive team as well as keep them in check, however responsibility lies first and foremost with the executive. In both scenarios the relationship between the chairman and the chief executive seems to be key.



> “Trust will often build over time but continual rotation of trustees can erode this.”

My point is, the greater the number of layers to the point of decision-making, the slower an organisation can be to move or react. This can cause frustration at all levels. The executive team are looked to by their teams to be decisive and lead the way. If decisions are delayed or continually unpicked by the board of trustees, can decision-making ever be optimised and operational efficiency attained? From a people perspective too, to control with accountability makes for job satisfaction, to influence without trust is a pain in the bum…but we are where we are.

> “The finance committee is the forum for the finance director to seek advice and have the debate.”

Sub committees of trustees can help and an effective finance committee is essential – preferably one with some continuity so that you don't have to reinvent the wheel every time the membership changes. Effective finance committees should be rigorously challenging the financial strategies, plans and budgets and making recommendations to the main board – The finance committee is the forum for the finance director to seek advice and have the debate. This can break down where the members of finance committee wear many hats and are the same members for another sub-committee, one where the finance director is not present. Approvals should always come back and be formalised at finance committee if it is not to become a puppet show.

Conclusion

In considering your own finance function consider these imponderables:

- If you were starting from scratch, how would you structure your finance function?
- Is your finance resource tied up in dealing with where your organisation has come from rather than getting on with where it needs to be going?
- Do you really understand your finances? How easily can your finance team produce numbers that highlight trends and lead to meaningful debate?
- Does your governance structure ease or detract from the speed of decision-making?