



Not for Profit

Preparing for the upturn

Roger Ward, Partner and Head of Creaseys' Charities Unit, talks about how the third sector can prepare itself for an upturn in the UK economy.

Views on how quickly the UK economy will recover from recession are mixed. The not-for-profit sector, like any other, needs to prepare for the expected upturn, but at the same time proceed with caution in case we experience a further period of slowdown.

Naturally, individual circumstances will vary. A well established and traditionally well supported charity may have seen a decline in incoming resources over the last year, but will hopefully have accumulated sufficient reserves in the past to have weathered the storm. On the other hand, charities that were in a precarious state before the recession are likely to be in an even more difficult position now. An immediate return to past levels of voluntary income is by no means guaranteed and charities that rely on government funding in particular will have to be especially vigilant, as we move into a period where all the main political parties talk of future spending cuts.

So how should not-for-profit organisations best prepare for the upturn? Well, in our view it's back to basics.

1. **First, look at your costs**
Can costs be realigned to the current level of voluntary income? When do you envisage donations picking up again and can you afford to carry overheads until that time? We have seen a regrettable increase in redundancies in the sector, but the speed at which one can chop and change personnel is hampered to a large extent by current employment legislation. Keeping track of fixed and variable costs and aligning those to changes in income is paramount.
2. **Communication**
Managing a healthy charity is a lot easier than managing a less healthy one. If circumstances remain difficult, you will need to have more frequent management meetings, talk to your staff and monitor the figures rigorously. Talk to your accountants too as they will want to help you come through these tough times.
3. **Revisit your business plan**
A fall in voluntary income might not have been factored into your forecasts for last year and you will now need to look again at your predictions and business strategy: not only in terms of publicity, investment plans and people, but also cash flow. You may need to change the assumptions on which your plans are based and see what effect this will have on the bottom line, both in terms of surpluses and cash.
4. **Make the most of your volunteers!**
Invariably it is the charity's volunteers who are the lifeblood of the organisation, whether it is members of the trustee board, helpers in the charity shops or people delivering front line services. Acknowledging the invaluable contribution volunteers make to your charity and keeping them involved is essential as we may well face a long slow haul to full recovery.

5. Maximise your cash.
Maintaining services to your beneficiaries is undeniably essential, but so is not running out of cash. You may need to consider different forms of fundraising, possibly cashing in some investments or borrowing money to fund that planned capital expenditure. Try and hang on to your cash as your income levels improve. This will give you a short-term buffer in case we run into a “double dip” recession and slip back into decline.

6. Match assets with the correct funding
Many charities do not like to borrow money and clearly this is sensible when it comes to day to day expenditure. For capital expenditure, however, considering the useful lives of assets is important. Long term assets could and perhaps should be financed by long term liabilities e.g. a bank loan. If you need to acquire medium term assets – e.g. upgrading equipment - consider some form of medium term finance such as leasing or hire purchase.

Like any business, charities are likely to experience cash flow difficulties and other problems as we emerge from recession and they will need guidance and advice in dealing with them. Established in 1998, Creaseys' Charities Unit brings together a dedicated team of partner led advisers with over 50 years combined experience of working alongside charities and other not-for-profit organisations.

For further information on the issues raised in this article or the services of Creaseys' Charities Unit, please contact Roger Ward at Creaseys LLP

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