Open letter to a new Chief of a small charity
June 2025

Dear Chief,

A massive congratulations on your new role. Small charities are amazing. They make people's lives better, communities stronger and oceans cleaner. We are going to be honest, right now, it is not a job for the faint hearted. Right now, it's tough out there. Right now, leading a small charity is an act of courage, creativity, and compassion. And we just want to remind you that, annoyingly ...

The mission doesn't survive without money.

Your top priority is, frankly, the money: bringing it in, understanding it, and stewarding it with care. This may not be what you were told when you are recruited. It may not be what you are desperate to hear. We are often told 'I don't really do numbers' by small charity Chiefs. We get it. For many, they are not the most scintillating bit of the job.

But we work with many, many Chiefs who haven't done the numbers - for very valid reasons - and, eventually, it all gets a bit of a gordian knot. And that is stressful. By far, the very best course of action, and we can't stress this enough, is to embrace the numbers so that you can lead with financial confidence.

And we promise you, if you do the following, with a fair wind, you will be giving your small charity the very best chances of navigating the financial uncertainty when it comes.

1. You need a budget. By fund.

A single bottom-line budget isn't enough. You need to know:

Where the money comes from and what it is funding
What restrictions apply and whether you are complying with them

Whether our individual activities are building organisational sustainability

A budget by fund has a column for each grant and one for unrestricted funds. It shows whether we're balancing our books within each income stream — and whether our reserves will stay within policy. Topping up restricted columns with unrestricted funds is fine if it is affordable and very much not fine if it is not. A budget by fund helps us show that we can end the year without going bust. It is how we stop problems before they start.

2. You need an up to date reserves policy.

Your reserves policy must state how much need, why you need them, how much you have and how you will get from A to B. It needs to be:

- ☐ Current
- ☐ Sufficient to cover your risks
- ☐ Focused on cash, unrestricted funds only

Too little in actual and target reserve = risk of collapse.
Too much in actual and target reserve = funding doors closing, at best, and at worst, money not being used for the mission.

Yes, it's a tightrope but one that we must walk.

3. You need a good, charity shaped, bookkeeping system.

Our bookkeeping systems works best when it:

- ☐ Is up to date
- ☐ Tracks every pound by fund
- ☐ Includes our budget by fund

Sometimes, this means we need to buy in specialist support to set the system up or keep it going. This is not wasted money. This is an investment in our future financial resilience. It buys us reliable, informative reports.

If we can’t trust the numbers, we can’t make sound decisions. Get the bookkeeping system to do the heavy lifting on fund accounting and budgeting and we are 70% of the way there.

4. You need robust financial controls.

It’s essential to protect the charity — and our people — from fraud, error, and misuse of funds. Trust us, when a fraud happens, everything shuts down. Not good for beneficiaries. Plus, it's deeply upsetting. Far better to make sure it never happens. Good controls start with:

- ☐ Dual bank signatory on all transactions
- ☐ Dual authorisation of payments
- ☐ Segregation of duties
- ☐ Monthly bank reconciliations
- ☐ Regular oversight

Fraud doesn’t just happen elsewhere. Small charities are often the most vulnerable. We need documented, enforced controls that are proportionate to our size and risk. If our controls are slowing us down this is a good thing, they are meant to. If they are making life impossible this is not a good thing. But this is a management thing not a controls thing. Do not sacrifice good fraud management at the altar of speed.

5. You need a monthly finance pack (non-negotiable).

Every month, you need three reports — and you need to understand what they’re telling you:

Actual vs Budget report

- ☐ Are we on track?
- ☐ Are grants over or under spent? Are reserves going up or down?
- ☐ What’s driving the variance to our budget?
- ☐ What corrective action do we need to take?

Balance Sheet

- ☐ What do we own, and what do we owe?
- ☐ Are net assets positive? Do we have sufficient cash?
- ☐ Are we relying on creditors to stay afloat?
- ☐ Do we really understand our balance sheet?

Cashflow Forecast

- ☐ Can we pay our bills as they fall due over the next 12 months?
- ☐ Do our projections include non-secured income? What happens if it doesn't come in?
- ☐ Do we need to delay or reduce spending or accelerate fundraising?

6. You need to understand your annual accounts - and the basis of preparation.

We must prepare either:

- ☐ Receipts & Payments accounts (simple, cash-based), or
- ☐ Accruals accounts in line with the Charity SORP (more complicated)

Find out which one applies to you and make sure you have the right ones. SORP compliance is mandatory for most charities over £250k income and all charitable companies. These aren't just technical distinctions — they affect how you interpret your financial position.

7. You need to know how to understand deficits.

Not all deficits are created equal:

- **Restricted fund deficits are normally due to timing issues** — e.g. a grant is received one year to be spent the next. These is normally fine if we're confident the income has come in already and it is covering the full cost of delivery.
- **Unrestricted operating deficits in the year may be fine if they are planned** — e.g. spending reserves to invest in new activity and if they are affordable - and covered by reserves without breaching the reserves policy. Persistent unrestricted operating deficits warrant investigation - and correction at some point!
- **Unrestricted fund deficits - that is total unrestricted funds - are negative.** This is not good. Even if total funds are positive. It is using restricted funds on unrestricted activity and needs correcting right away.
- **Total fund deficits (all funds) are negative.** This is a big red flag. Get professional advice.

Basically, if we're spending more than we bring in, and we don't have unrestricted reserves to cover it, we're on dangerous ground. Which brings us to ...

8. You need to know what insolvency looks like.

Insolvency isn't just about running out of cash. It includes:

- ☐ Not being able to pay bills when due (cashflow insolvency)
- ☐ Liabilities exceeding assets (balance sheet insolvency - deficit closing funds)

Red flags include:

- ☐ Delaying supplier payments
- ☐ Repeated salary or HMRC arrears
- ☐ Using restricted funds to cover core costs
- ☐ No updated cashflow forecast
- ☐ Unplanned unrestricted fund deficits

If any of these apply, we need to take urgent action — don't wait for the year-end.

9. You need prompt year end accounts - and you need to know what is in them.

The year-end isn't just a box-ticking exercise. It's a chance to:

- ☐ Review performance
- ☐ Assess risk
- ☐ Communicate transparently with funders and stakeholders

Key questions:

- ☐ What restricted fund balances are we carrying forward to next year? Are these in our next year budget?
- ☐ How much do we have in reserve? Is our policy statement up to date?
- ☐ What is on our balance sheet and do we know all the numbers?
- ☐ Do we know what is included in income and what is not? Charity income recognition is not straight forward. It is worth checking.
- ☐ Are we filing on time? Filing late can have a big - unhelpful - impact on our fundraising. Check your Charity Commission register is up to date and everything is nice and on time!

The accounts must be accurate, timely, and reviewed in detail by leadership and trustees — including a clear explanation of variances and the year's financial narrative.

10. You need a simple financial plan.

No 40-page strategy. Just a clear, simple roadmap that explains:

- ☐ This is our business model. This is how we fund our work and structure our operations. These are the constraints and opportunities. This is how we adapt it when needed in order to stay financially viable.
- ☐ This is our current financial position - if nothing changes, currently we are vulnerable, surviving, sustaining or thriving
- ☐ This will be our future financial position when we follow this organisational plan
- ☐ This will be the impact on our reserves when we follow this organisational plan
- ☐ These are our short- and longer-term financial risks and this is how we manage them
- ☐ This is our financial reporting and this is how we monitor our plan and future financial viability

You need a plan, you need to monitor the plan, you to adapt the plan when it's not working. Which takes time. Something we don't have in plentiful supply. But finance often falls into the important but not urgent box. We recommend booking into your diary ....

11. One day per month. No less.

Half a day per month looking back (reviewing reports, analysing results)

Half a day per month looking forward (checking forecasts, managing risk, planning income)

Finances aren't something to "check in on" quarterly. They're part of the core leadership responsibility. Book in the time and bump only it times of extreme need. Otherwise, the finances will be in extreme need and it may be too late.

And this doesn't include Board time.....

12. Trustees must, must, must fulfil their finance duties.

As CEO, you might need to remind the Chair of Board that trustees need to fulfil their legal duties. In finance, these include:

- ☐ Protecting and safeguarding assets and money
- ☐ Avoiding inappropriate payments to trustees
- ☐ Ensuring accurate, timely records
- ☐ Monitoring the financial position
- ☐ Identifying and addressing financial problems promptly
- ☐ Keeping the Charity Commission register up to date

At a minimum Trustees must be familiar with:

- ☐ CC3 – The Essential Trustee
- ☐ Managing Charity Finances

- ☐ CC12 – Managing Charity Financial Difficulties

If they’re not, someone needs to bring them along. This should be the Chair. If not, you will need to.

Trustees need to read the papers before the meeting, come armed with questions and ready to engage with the financial discussions. Beware the overly polite Board!

Finally, all of this is said with love.

Running a small charity is hard. Really hard. Especially now. But the truth is, no-one can lead in the financial dark.

You can’t deliver the mission if the charity goes under.
You can’t protect your people without understanding the finances.

We, your finance team — whether full-time, part-time, outsourced, or volunteer — are here to help. But you need to put the numbers front and centre right now. Not just when things go wrong. All the time.

So please: Read our reports. Challenge our assumptions. Know the numbers. Ask the questions.

With spreadsheets and solidarity,

Your Finance Director

Source: https://www.embracefinance.org.uk/openletter