Embrace Finance
Building confident charities

Small Charity Finance – Where to Start

Small charities are amazing. They make people's lives better, communities stronger and oceans cleaner. They are often hyper local, they are innovative, they are masters at managing scarce resources. When it comes to the finances however, often, leaders tell us that they can struggle to answer foundational questions; how much we have available to spend, how much income we need to raise, whether reserves are going up or down, whether we are on track with our grant spend. Here we give our thoughts on where to start with it all.

01 | Budget

Every charity needs an organisational budget. A report which tells them how much their workplan for the year is going to cost and how it is going to be funded. If we have grant funding in the mix, then it needs to cover that too. It needs to show us which grants are breaking even, which are contributing to core costs, and which are being subsidised by reserves. It also needs to tell us if reserves are going up or down come the end of year if all is going according to plan. It probably looks something like this.

2023 24 budget					
Actual v Budget					
From xx xx xxxx to xx xx xxxx					
	Rd			**Unrd**	**Total**
	GRANT 1	**GRANT 2**	**Total**		
Grants					
Donations					
Earned income					
Investment income					
Other income					
Total Income					
Project costs					
Building costs					
Salary costs					
Governance costs					
Total Expenditure					
Surplus/(Deficit)	0	0	0	0	0
Opening funds balance					
Closing funds balance	0	0	0	0	0
target				125,000	
varaince				-125,000	

Please note that this is intended to give a sense of what we need to do when managing the finances in a small charity. It is by no means exhaustive and is certainly not intended to replace proper professional advice.

02 | Bookkeeping system

A bookkeeping system is essential. It is where we keep a record of our financial transactions. We can use these to monitor how far or not we are from budget. A good bookkeeping system will mirror our bank account and it will categorise our income and expenditure by grant/unrestricted funds. Some smaller charities may be perfectly fine with an Excel cashbook. Others will need a more sophisticated online bookkeeping system such as QuickBooks Online or Xero. They key is to make sure that you are categorising all your banking transactions in a way that enables you to track activity on grants and reserves. It is too complicated to explain in full here. Our recommendation is that you good a certified bookkeeper with experience of charities when setting up or learning a bookkeeping system. Getting it right from the beginning can save costly mistakes later.

03 | Monthly Actual v Budget Report

An actual v budget report which compares what you thought was going to happen in the month with what actually happened in the month is super helpful. You can then analyse the variance between the two to inform what you will do next; you may need to change your budget or change your activities. In our experience this works best when it is prepared and scrutinised monthly as it gives time for us to fix any problems and to check that we are not over/underspending. It may look something like this with our unrestricted funds clearly highlighted to draw attention to them.

Actual v Budget
From xx xx xxxx to xx xx xxxx

	Restricted Funds									Unrestricted Funds			Total Funds		
	Grant 1			Grant 2			Total Grants								
	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance	Actual	Budget	Variance
Grants															
Donations															
Earned income															
Investment income															
Other income															
Total Income															
Project costs															
Building costs															
Salary costs															
Governance costs															
Total Expenditure															
Surplus/(Deficit)	0	0		0			0			0			0	0	0
Opening funds balance															
Closing funds balance	0	0		0			0			0			0	0	0

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04 | Cashflow forecast

A good budget will tell you how much your intended activities are going to cost, and a monthly actual v budget report will tell you whether you are on track or whether you need to make changes. Neither will tell you if the money will arrive in time for you to make the various payments, rent, salaries, heat and light etc. Invariably, charity income is lumpy and expenditure steady. Therefore, we need to make sure that the income is received in time for us to make the necessary payments. For this, we need a cashflow forecast. This predicts our closing balances and can give us valuable time to fix things should we need to. A cashflow forecast looks like this:

	CASHLOW												
INCOME	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**June**	**July**	**August**	**September**	**October**	**November**	**December**	**Total**
													£0
													£0
													£0
													£0
Total income	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**
EXPENDITURE													
													£0
													£0
													£0
													£0
													£0
													£0
													£0
Total Expenditure	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**
Surplus/(Deficit)	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Cash opening balance	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	
Cash closing balance	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	

05 | Trustee's Annual Report and Accounts

At the end of the year, we will need to prepare a set of Annual Accounts and a Trustee's Annual Report. These are based on our bookkeeping records and presented in a standard format.

Small (non-company) charities with an annual income under £250k can prepare receipts and payments accounts. These are a simpler version than accruals accounts which is what we need to prepare when our income is over £250k pa or we are a charitable company. If you are unsure what accounts to prepare you can check here.

The Charity Commission has some templates (accruals accounts templates also available) and some example accounts which are super helpful. Accruals accounts need to be prepared in accordance with the Charities SORP. This requires good technical skills, and we always recommend that you use a good charity accountant to prepare your year-end accounts. Make sure that you check them thoroughly, even accountants can get it wrong sometimes. Once we have had our accounts signed off (see IE/Audit below) we file these with the Charity Commission. More on this is here.

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06 | Independent Examination/Audit

If our income is over £25k pa we will need an independent examination of our Trustee's Annual Report and Accounts. To find an independent examiner, visit the Association of Independent Examiner's database. This will help you know what to prepare. When income exceeds £1m pa we need a full audit. This is a deeper dive into the numbers and systems. Both can a useful annual assurance that things are ok.

07 | Reserves policy

All charities need a reserves policy. Even if the policy is not to hold reserves. As charities we are here to spend. It is ok to hold funds back for a rainy day, but we need to be intentional and transparent. Our reserves policy needs to include how much we think we need in reserve and why, how much we have and how to get from A to B. We publish this in our Trustee's Annual Report. Charity Commission guidance on reserves is here.

08 | Financial controls

Every charity needs to have an up-to-date set of written financial controls to safeguard funds and ensure proper management. Charity Commission guidance is here. They also have a great checklist which we can use to benchmark against. This is often overlooked in small charities due to time pressures. This is a mistake in our view. Charity fraud can and does happen and no-one ever mentions how upsetting it is. Our strong recommendation is to stay on the front foot, have good controls and check them regularly.

09 | Trustees

Charity governance is such that the buck stops with Trustees. They are responsible for putting into place the correct systems and processes. They may delegate some of this to an Executive team, but they remain responsible for the impact of any decisions take with their authority. Knowing what Trustees are responsible for makes it much easier to have confidence that we have what we need. If you are unsure this is a super helpful entry level guide to Trustee's Finance Duties.

10 | Next steps

There is so much more we could share with you, but this is what we consider to be the minimum of what we need to know when leading a small charity. Our website https://www.embracefinance.org.uk/resources has more information which may be of use.

Good luck!

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