



# Staying ahead – spotting warning signs and building financial resilience

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# Introductions



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# Agenda

- 1 State of the sector
- 2 Warning signs
- 3 How to recognise  
and deal with distress
- 4 Q&A



# State of the sector

# 2

## Warning signs

# What makes a charity vulnerable?

## Predictable income flows

Most comfortable model.

01

02

## Flexible cost base

Need to understand reserves policy.

03

04

## Fixed cost commitments

Need to track trends in income.

## Unreliable income

Most vulnerable position.



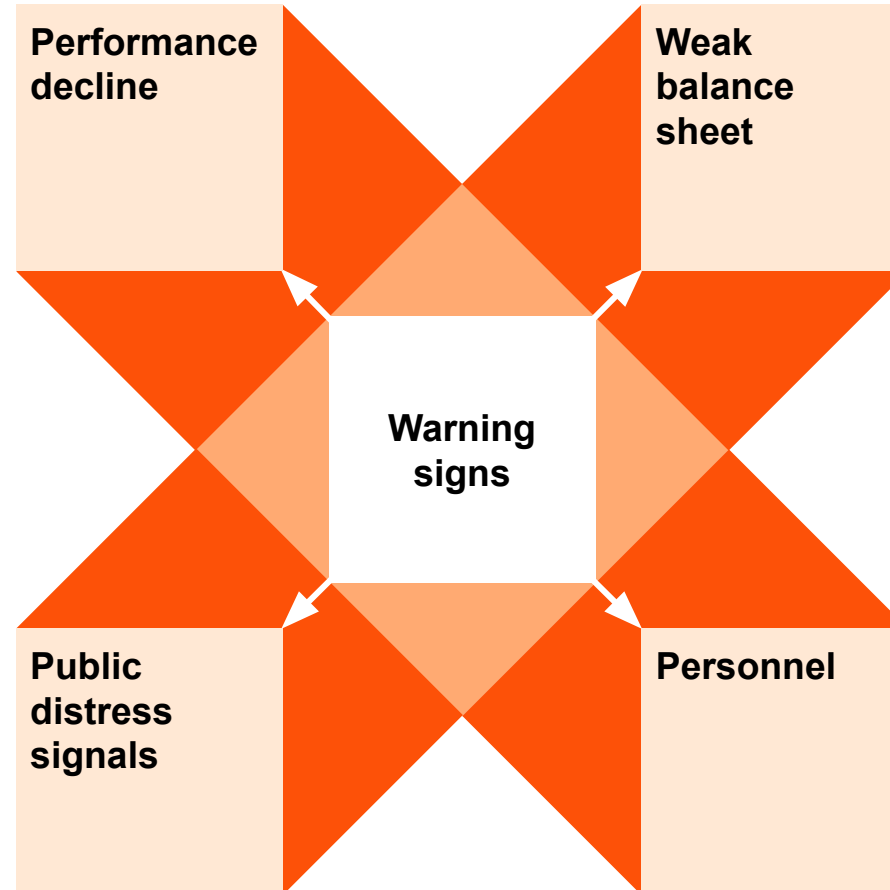
# What to look out for

## Performance decline

- Declining profit/EBITDA.
- Shrinking market.
- New activities that diverge from strategy/are not funded.
- Macro-pressures (e.g. exposure to inflation, cost increases).
- Loss of key customers/donors/suppliers/stakeholders.

## Public distress signals

- Media reports (adverse comment on operations, performance) programmes).
- Social media.
- Regulatory Scrutiny.



## Weak balance sheet

- Poor liquidity and reserves.
- Decreasing cash position.
- High leverage.
- Manipulating working capital to generate liquidity.

## Personnel

- Loss of key staff/turnover of staff.
- Engagement of board – frequency and nature of meetings.
- Lack of transparency.
- Inability to prioritise/Shortage of Resource.

Missing Targets

Unexplained Variances

Missing Deadlines

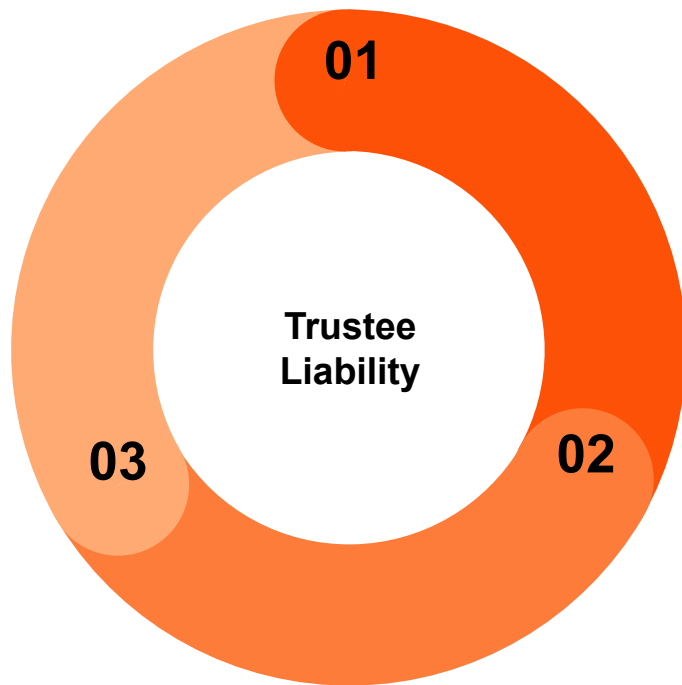


# How to recognise and deal with distress



# Director/Trustees duties

Trustees may be held personally liable if it appears that they allowed the charity to continue trading without taking every precaution to minimise potential losses to creditors. Each charity must be considered individually on this basis.



## 01 What is the position of a Trustee of a charitable company?

- The directors (ie. Trustees) themselves will normally have no personal liability for the company's debts, because the company has a separate legal identity.
- However, there are certain limited circumstances involving fraud, transactions at an under value, wrongful trading or breach of trust where directors may face personal liability.

## 02 What is the position of a Trustee of a charitable company in the event of an insolvency?

- A director can be ordered to contribute to the assets of an insolvent company if it appears that he or she knew, or ought to have concluded, that there was no reasonable prospect of the charity avoiding the position where it would be unable to meet all its debts; but continued to do business without taking every step with a view to minimising potential losses to the charity's creditors.

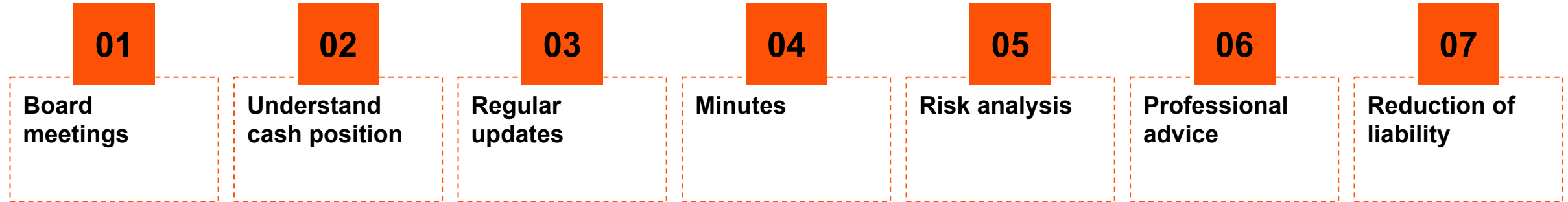
## 03 What is the general duty of a charity Trustee?

- Acting prudently and reasonably in administering the financial affairs of the charity.
- Ensuring prudent financial management and compliance with the law, including insolvency law.

The legal position of charity Trustees in an insolvent situation varies according to the legal structure of the charity.

CC12 – Charity Commission advice is an excellent source for Charities and Stakeholders

# Best practice for trustees and management team



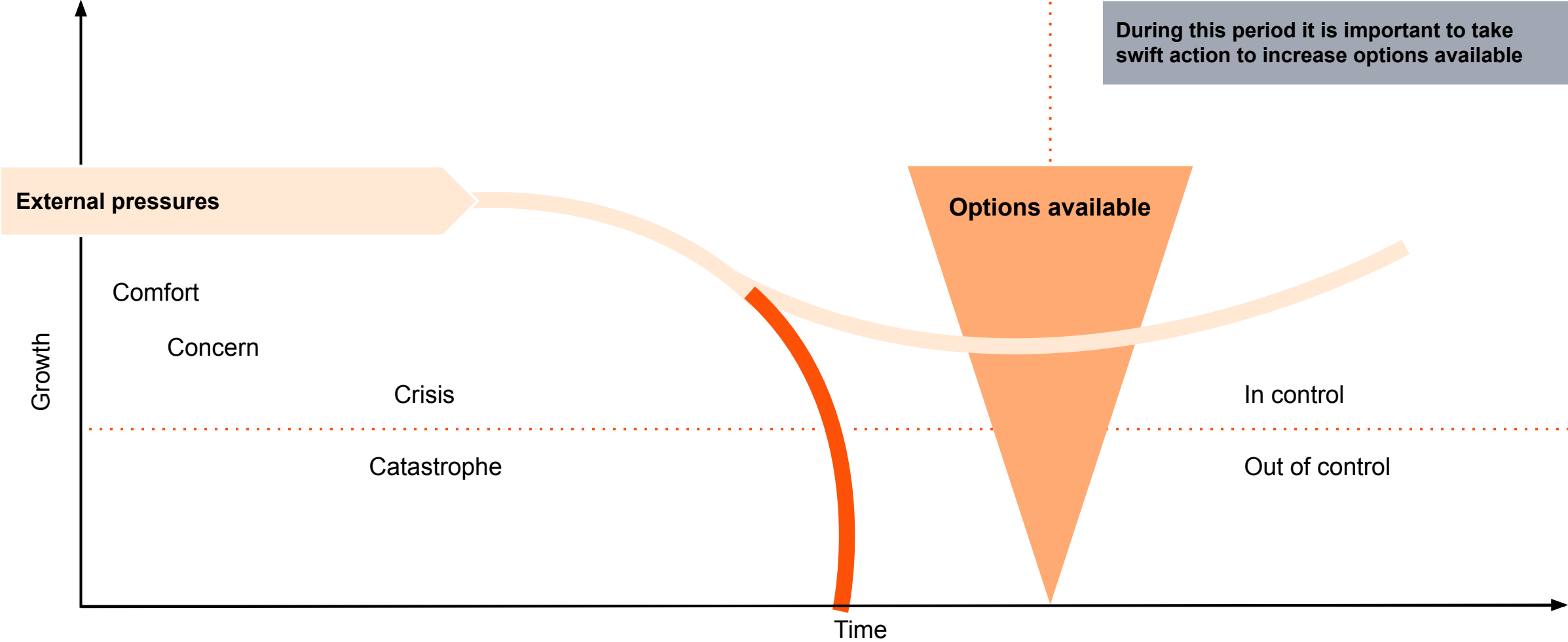
**Remember:** Simply stopping to trade is generally not in the best interests of creditors (!)

# Best practice for trustees and management team (continued)

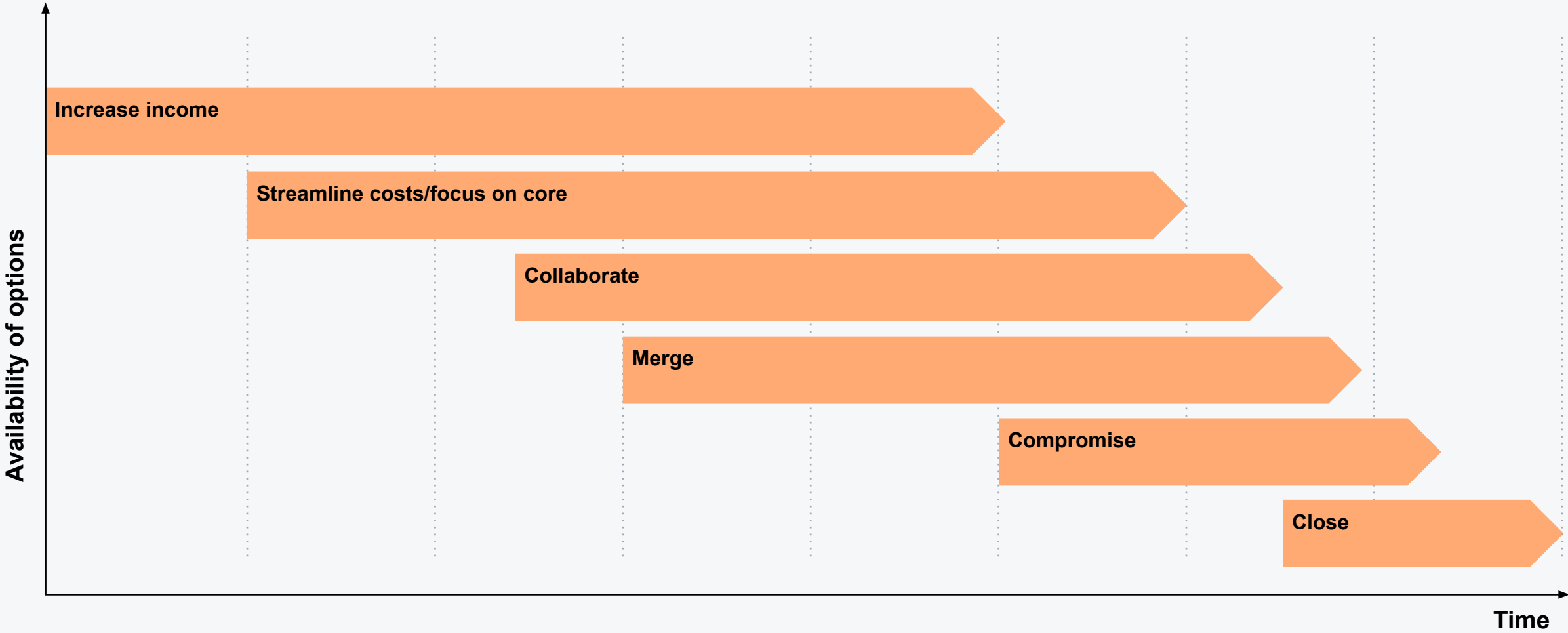


**Remember:** Simply stopping to trade is generally not in the best interests of creditors (!)

# Understanding the recovery curve



# Solutions





# The critical steps for recognising and dealing with financial challenge and distress

01

Assess the situation and diagnose the problem.

02

Understand options available and develop programme of work.

03

Leadership and ownership across the organisation.

04

Rigorous and regular reporting.

05

Enhanced governance and communication.

06

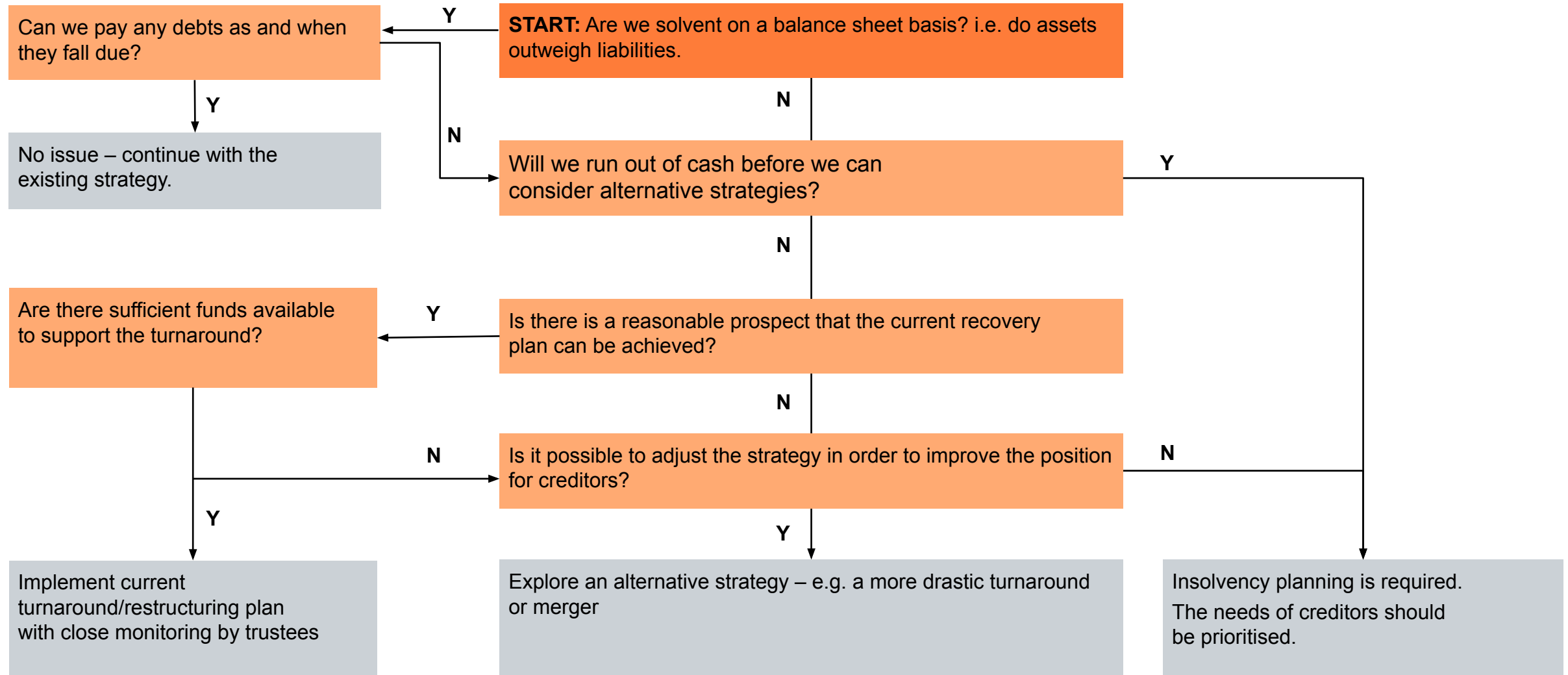
Map out and engage with stakeholders.

07

Seek support and advice.



# Continually re-evaluate your position



# 4

## Q&A



# Thank you

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