Managing financial difficulties:

Part B: Toolkit for arts and cultural organisations

ALCHEMY research & consultancy

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Section 1: Purpose

Our aim is developing this toolkit is simple – to give you some practical, easy to use tools and frameworks that will help you take action and manage your financial challenges.

1.1 What works when managing a financial crisis

Based on our experience of working with arts and cultural organisations in difficulty we would offer the following observations about and what doesn't work and what does.

Take action

Don't be an ostrich and stick your head in the sand. Don't avoid the problem; major financial problems rarely go away; left to fester they just keep getting bigger, messier and harder to solve.

Act quickly; delayed decision making is often more damaging than sub-optimal decisions because a decision, any decision, provides momentum and purpose.

In a crisis, it is rare to have all the information that you would ideally want to have before deciding on a course of action. The resulting discomfort can lead to paralysis as people wait for more information. It is important to have the courage and confidence to make a decision and to trust your collective instincts.

Be open and honest

It is hard to be open about a crisis; it feels too much like failure and people fear censure, the destruction of long-term relationships and loss of reputation. But secrecy can be a major obstacle to surviving your crisis. It is hard to solve a problem that you cannot acknowledge, that you cannot hear yourself explaining to others and into whose solving you cannot invite the insights and support of others.

This is not to suggest a policy of complete transparency, but you need to manage the knowledge about your organisation's challenges intelligently rather than suppress it in the hope it will all go away.

Lead and be accountable

Don't play the blame game. When a major problem emerges suddenly some people like to find others to blame. Sometimes it is a knee jerk reaction, sometimes it is displacement activity in the face of something frightening and sometimes it is designed to deflect attention away from oneself. Irrespective of the motivation it is a deeply unproductive response. It uses up valuable time, energy and resources that could much better spend on tackling the problem. It corrodes the very relationships between staff, between staff and board members and between the organisation and its stakeholders whose strength is essential in weathering the storm. It can take courage to resist the impulse to blame, whether on your own part or on the part of others, but it is essential.

Take responsibility for finding solutions

Sometimes people are unwilling to believe that they are truly at risk of insolvency and closure. They believe that someone – a knight in shining armour – will come to their rescue, possibly because they are too important to fail or because they simply cannot believe that the organisation they love could cease to exist.

In practice, the ability of public funders (the usual choice for role of knight in shining armour) to fund bail outs of falling organisations is now severely constrained by budget cuts. Other funders, such as trusts or high net worth individuals, are usually unwilling or unable to pump in significant sums without public funder support and/or a turnaround plan to invest in. Banks will be most unlikely to advance significant sums, especially unsecured, to a business in crisis.

Pace yourself

Managing crises is exhausting and stressful. You will be working long hours, trying to respond quickly to unexpected developments and trying to manage your own anxieties as well as those of your colleagues. It is a marathon not a sprint. Taking breaks, going home at a sensible time and getting enough are all essential.

Ensure that your financial information is relevant, accurate and timely

If you are going to manage a financial crisis effectively you need good financial information.

You need to focus on the relevant numbers rather than the whole nominal ledger. The key numbers should include cash and those numbers where the risk is greatest; usually sales of your key product(s), major receipts such as grant payments and costs where you have struggled to maintain control in the past. The information needs to be 'accurate enough', that is, accurate enough to make decisions on but it need not be accurate to the nearest pound. You need information that is up to date: at least weekly and maybe even daily if the position is very precarious.

Pull together a 'rough and ready' dashboard and share it regularly with everyone who needs to know. It does not need to be elegant; it just needs to work. Don't include too many metrics – focus on the few key ones that really matter.

Develop a Plan B

Some organisations never consider that they may face a crisis and have not imagined where such a crisis might come from nor how they would work together to resolve it. In such organisations, risk management is often seen as a tedious compliance issue with the risk register receiving an annual update to keep the auditors happy. Such organisations really struggle when a crisis does hit because they have no plans to fall back on and must invent everything from scratch at speed.

Document your decisions

In a crisis, senior managers and trustees will be taking many difficult decisions, often with less information and time to reflect than they would like.

Some of these decisions may be challenged by those affected or by those who, with the value of hindsight, think a better path could have been taken. Some of these challenges could have legal and financial consequences.

If you document your decisions as you go with your reasoning you will be protecting yourself and your organisation. If your Board does not include people with suitable legal experience you should consider asking your lawyers to minute crucial Board meetings or you could retain the services of a specialist Company Secretary practice.

In summary

- Don't ignore the situation: it will not go away and is most likely to get harder to deal with rather than easier.
- Take action even when you don't have all the information that you would like. In most situations inaction is much more damaging than an action which proves, in retrospect, to be less than ideal.
- Focus on your cash position: without cash you are sunk but a damaged balance sheet can be rebuilt
- Ensure that you have up to date information on key financial measures: you don't need to know everything and not every number has to be accurate to the pound, but you must know where you stand financially on a daily/ weekly basis
- Don't play the blame game: it takes up valuable time and even more valuable energy when both will be essential but in short supply
- Keep key stakeholders informed: you will need all the goodwill that you can get
- Document your decisions

1.2 Using the guidance and the toolkit

This toolkit (Part B) is designed to be used in conjunction with the guidance document (Part A). It provides additional resources and practical advice on the wider strategic, emotional and behavioural issues you might encounter as you manage your financial difficulties.

The toolkit includes support on

- Taking stock
- Taking control of your finances
- Leadership
- Change and transition
- Managing self and others

Disclaimer

The information in this guidance is of a general nature and should not be relied on in place of legal and financial advice appropriate to your circumstances.

Section 2: Taking stock

This section includes tools and frameworks to help you with the following tasks.

- Diagnosing the scale of the problems you are facing
- Planning your immediate next steps
- Understanding the causes of your current situation
- Problem identification and problem solving

2.1 Problem identification and problem solving

What is the issue?

It may seem obvious but being clear about the nature of the problem you are dealing with will be important in identifying the right corrective action and process. Resolving a financial issue created by an incident beyond your control, like a flood, will be different in nature to one created by financial mismanagement.

Process

The financial difficulties you may be facing are likely to fall into one of three types of problem each of which requires a different approach (Grint, 2005; Rittel & Webber, 1973):

- Tame
- Critical
- Wicked

Tame problems: usually have an end point where they reach a conclusion, and they may have been experienced before. They can be complicated but there is limited uncertainty. Many financial problems are tame problems, they might be hard but there is generally a point of solution. If your building's security alarm stops working that can be a tame problem – you might replace a component or buy a new system. Your finishing point will be clearly defined as having a usable security system. Tame problems may be thought of in two ways:

1. Known problem and the solution requires action. Often it is moving to taking action that becomes the issue, we might procrastinate or keep seeking more information
2. Known problem and the solution requires additional expertise. In this context the problem is clearly identified but there is a need for support in taking action

Critical problems: are concerned with crisis, meaning there is limited time for decision making and action. A financial difficulty of this kind may have been caused by an unpredictable event such as flooding, a fire, or an unexpected in year funding cut.

Critical problems can be:

- Either human-made or natural disaster
- Long duration, possibly affecting a wide geographic area
- An extremely grave situation
- Involve a flood of Information
- About monumental decisions
- Likely to involve a high level of stress

Critical problems may require one of three approaches:

1. Known problem and solution requires urgent action
2. Known problem and the solution requires urgent action and additional expertise
3. Known problem and the solution requires urgent action and new approaches. It may be a novel situation that needs reframing of existing information and creative thinking

Wicked problems: are highly complex, involve multiple perspectives, have a no stopping point rule and there are no right or wrong solutions. Wicked problems include global warming, knife crime, the future of health and welfare services, the housing shortage, in-work poverty, etc. A financial issue in this area may be caused by shifting policies that require you to deliver more for less such as arts programmes that are picking up what might once have been regarded as public services responsibilities.

Wicked problems have a range of characteristics that highlight their challenging nature:

- Difficult to clearly define
- Many interdependencies and multi-causal
- No clear solution
- Attempts to solve them cause unforeseen consequences
- Often not stable
- Socially complex
- Multiple stakeholders or interest groups
- Involve changing behaviours
- Have a no stopping rule

The issue with our more difficult problems is that they often don't get solved at all – we get stuck in a loop of disagreement about the best approach to take, or, someone with authority imposes a solution. This dictated solution is often chosen because it appears to speed up the solution. These single solution approaches tend not to take account of the fact that often the problems we face are tough and complex and not amenable to simple solutions.

These problems are tough because they are complex in three ways:

- Dynamically: cause and effect are distanced from each other and as such it is not always easy to identify them while experiencing the problem
- Generatively: they tend not to open out in predictable or familiar ways
- Socially: there can be many people involved with widely differing perspectives and so the understanding of the problem can be quite polarised

> The leader's role with a Wicked Problem is to ask the right questions rather than provide the right answers because the answers may not be self-evident and will require a collaborative process to make any kind of progress. (Grint, 2005)

Identifying and being clear about the nature of the problem you are facing can be helpful in determining the likely decision-making processes that are needed, and the solutions or resolutions that are possible.

Wicked problems are likely to be largely unknown and need to be identified. This can require challenging assumptions, chunking the problem into smaller units, benchmarking, cross pollination of ideas, and wider partnerships or collaborations.

Approaches to gathering and evaluating information

Individuals differ in the way they interact with others and the way they gather and evaluate information for problem solving and decision-making. If you are interested in identifying your individual approach complete the profile in Appendix One.

Challenges

- There is often an assumption the issue is a tame problem with a straightforward solution
- Leadership teams can feel they ought to have the solution and don't open out the discussion to gain wider insights
- Teams that are used to working collaboratively may struggle to be decisive and act quickly

Problem type	Tame	Critical	Wicked
Approach	Management	Command	Leadership
Method	Operational	Tactical	Strategic
Time span	Short to medium-term	Short-term	Long-term

Figure 1 Problem types defined

Top tips

Try to be mindful of when you are pushing your own opinions onto others and proving you are 'right', try to more reflective. Build an open dialogue to address complex problems Adam Kahane (2004) by:

1. Paying attention to how you are participating, and talking and listening
2. Speaking up
3. Remembering that you don't know the truth about anything
4. Engaging with and listen to others who have a stake in the system
5. Reflecting on your own role in the system
6. Listening with empathy
7. Listening to what is being said not just by yourself and others but through all of you
8. Stopping talking
9. Relaxing and being fully present
10. Trying these suggestions and seeing what happens – keep practising

2.2 How bad is it: diagnosing the scale of your financial problems

What is the issue?

As shown in the managing financial difficulties flowchart (Part A: Section 3.1, Figure Four) the crucial first step is getting an overview of the situation and defining its level of severity. This might be something you can do as an individual or an executive team (if you have one), or you may need to involve a wider group of people including your governing body and stakeholders.

Process

Regardless of your level of crisis as part of your taking stock activity you will need to do a wide-ranging document review. You, and your governing body should familiarise yourself with the following:

Governing documents

Staff Handbook and employee contracts

Pension scheme arrangements

Terms and conditions for sale of tickets etc

Contracts with customers e.g. those hiring your venue, using you as a ticket agency

Insurance policies

Funding agreements

Accreditation standards

Leases, mortgages or loan agreements

The first step in the process is to identify the level of potential or actual crisis.

The following two checklists offer lists of financial Figure Two) and organisational indicators (Figure Three) of impending or actual financial difficulty.

1. Complete both checklists. It should not take more than 10 minutes for each checklist.
2. Compare your results together using the scoring guidelines at the end.
3. Discuss and agree together what level of financial crisis you are facing.

Financial indicators	Present in your organisation?	Notes for further discussion
Adverse credit rating		
Being put on stop (creditors refusing to supply until they are paid)		
Cannot pay salaries next week		
Funders asked to bring grant payments forward, grants rescheduled		
Adverse publicity		
Authorisation of expenditure outside agreed financial policies		
Cannot make budget		
Creditors' complaints		
Delays in producing management reports		
Extending creditors beyond usual terms		
Invoices being submitted to accounts department late		
Invoices in desk drawers		
Lack of or breakdown in the operation of agreed financial processes		
Late filing of accounts (or filing at the last-minute year after year)		
Net current liabilities		
No or minimal reserves well below target		
Paying HMRC late – payroll taxes and VAT		
Paying Pension provider late		
Qualified audit report		
Winding up petition!		
Pattern of failure to meet budget over several years		
Pattern of unrestricted deficits		
Significant financial underperformance in one area		
Sustained increase in creditors		
Unexplained, unexpected substantial adverse budget variances		
Using advance ticket income to trade		
Using creditors/bank debt (overdraft) to fund losses		
Using Restricted Funds to trade		
Using third party funds to trade		

Figure 2 Indicators of financial difficulty

Organisational indicators	Present in your organisation?	Notes for further discussion
Breakdown in relations between the executive and the Board		
Budget holders do not know what budgets they are holding or do not have regular sight of their budgets		
Difficult to recruit/retain finance staff		
Difficult to recruit/retain trustees with financial skills		
Dysfunction within the senior team		
Dysfunction within the Board		
Employment Tribunal cases		
High levels of staff sickness and absence		
High levels of staff turnover		
Lack of accountability and/or transparency in decision making		
Lack of understanding of and/or commitment to the organisation's current plans and budgets among key staff		
Peers and others unwilling to partner with organisation		
Poor attendance at Board meetings		
Poor governance oversight or/understanding of organisation's finances		
Staff grievances		
Sudden (and unexplained) departures of key staff/ trustees		
Whistle blowing reports		

Figure 3: Organisational indicators of financial difficulty

Scoring

- The greater the number of indicators that you recognise as being present, the higher the likelihood of imminent financial difficulties
- No reserves (highlighted in bold under financial indicators) is a strong indicator of financial weakness and a good predictor of future financial crises
- If you have ticked more than three financial indicators, then you need to investigate further
- Those in red indicate that you are already in crisis (level four) or face a serious risk of insolvency (level five) and you must investigate immediately and consider the need for external specialist advice

Challenges

- It is unlikely that any one person in the organisation will have all the knowledge necessary to complete both checklists so ask a cross section of people to do so, including members of your governing body. This may feel quite threatening or unsafe if your organisation does not have an open culture, but it is essential if you are going to manage a crisis well.
- Completing these checklists may throw up some surprises; treat this new information as an asset not an inconvenient truth to be ignored.
- Diagnosing the scale of problems, you face is not an exact science so don't spend too long on this. Use it as a way to start sharing important information openly and exploring together what that information is telling you.

Top tips

- Stay focused on the purpose of the exercise: diagnosing the level of threat you face as an essential pre-condition for deciding what action to take
- Record the evidence for your opinion where possible; it will help you have a better discussion based in fact rather than opinion
- Different people will have different perspectives and may come from different starting points; this is normal. It should not stop you reaching a combined view on the level of challenge you face.

2.3 Planning your immediate next steps

What is the issue?

Once you have identified the likely level of crisis you need to start planning the management processes and who will be responsible for overseeing them.

Process

Use the Common Responses to Financial Difficulty as a starting point (Part A: Section 3.1, Figure Five), to agree what steps you must take immediately. Ensure that someone is allocated responsibility for each action.

You could use the template below to help you plan (Figure Four).

Level	Characteristics	Activities	Responsible	Target date
Level 1 **Troubling indicators**	Weak balance sheet Unexplained and/or unexpected financial underperformance High staff turnover in the finance team			
Level 2 **Worrying but manageable**	Budget shortfall that is manageable in year – by cost cutting, improving income generation (rarely) or drawing modestly on reserves Does not require fundamental re-think of business			
Level 3 **Potential crisis**	Projections suggest that, unless action is taken, a crisis is likely to materialise			
Level 4 **Crisis**	Major financial difficulties requiring active, intense management Organisational viability under threat Board becomes more hands on – meets more often Active stakeholder involvement Adverse publicity			
Level 5 **Serious risk of insolvency**	Cash crisis Organisation unable, or likely to be unable, to pay debts as they fall due Unable to manage crisis without additional external support			

Figure 4 Identify key activities and who will be responsible

Challenges

- You will be planning without all of the information you might like so be flexible and willing to change your plans

Top tips

- Getting started is often the hardest part of managing a crisis. Start somewhere, even if it is not the most important or obvious place to start; it will help build momentum and confidence.
- Maintain an up to date action plan. Review it weekly but don't let it become too long and unwieldy. If it becomes too intimidating it will cease to be helpful and can actually demotivate your team.
- Focus on being good enough and then moving onto the next challenge; aiming for perfection will slow you down.

2.4 Understanding the causes of the current situation

What is the issue?

You need to understand how your current financial difficulties have arisen, both so you can start to solve the problem and also so you can explain to your key stakeholders what has happened. You need a robust, convincing and comprehensive explanation, you need it quickly, but you do not want to invest more time than necessary.

Process

This process uses an after-action review (AAR) framework to create a template for how you could, quickly and efficiently, explore the causes of your current difficulties.

An after-action review is a structured approach for reflecting on the work of a group and identifying strengths, weaknesses and areas for improvement... An after-action review (AAR) conducted after Hurricane Katrina led to new systems for communications during natural disasters. One team member reported, "Without an AAR you keep learning your lessons again the hard way!"

An after-action review method of evaluation usually takes the form of a facilitated discussion following an event or activity. It enables understanding of the expectations and perspectives of all those involved, and it captures learning, which can then be shared more widely.

When to use it

AARs can be used after any activity or event that has been particularly successful or unsuccessful. It is also often used at the end of a project to help populate a lessons learnt log. It is important to disseminate learning widely so that good practice can be shared, and others can learn from mistakes.

Source: NHS Improvement – After Action Review

Conducting an AAR has three elements.

Preparation → **AAR workshop** → **Follow up**

Preparation

- Consider who should attend the AAR workshop. Keep the group small enough that it is manageable. Include people from across the organisation with relevant knowledge and insight.
- Do you want an external facilitator? This will involve cost and may involve delay, but it should make it easier for everyone to be heard and for you to have meaningful, honest conversations. It allows the Chief Executive, Chair or equivalent to participate rather than facilitate.
- Prepare summaries of key information and circulate in advance so that everyone has access to the same basic information.
- Consider holding the workshop off site in a neutral location to make it easier for participants to focus on the important discussions you need to have.
- Distribute an agenda and briefing in advance so that everyone has an opportunity to prepare for the review.

AAR workshop – suggested template

A facilitator should guide you through a series of questions along these lines (Figure Five).

Session/ question	Prompts
Welcome and introductions	Welcome and thank everyone Invite everyone to introduce themselves
Purpose and ways of working	Outline the purpose of the session Discuss and agree how you will work together – see resources below for some suggestions
What did we plan to do?	Review together what you planned to do You may want one or more of the participants to make a short presentation to remind people of the previously circulated material. Keep it short. Avoid judgement or justification.

Session/ question	Prompts
What actually happened?	Discuss what actually happened Consider events from different perspectives • Staff, board member, stakeholder • Financial, organisational, programme Agree on the headlines
What were the differences? Why did they occur?	Compare your plans to reality. Agree on the key differences. Explore why these differences arose from multiple perspectives. Remember the money, or lack of it, is only the result of the decisions you have taken and the behavior of others such as your customers. • What were those decisions? • Where did the behavior of others differ from your expectations? • What evidence did you base your original assumptions upon? • What warning signs, if any, did you see? • How well did you identify the risks which have now materialized?
What went well? Why?	Do consider what has also gone well. • How might these elements differ from those that have gone badly? • How could you build on these successes?
What do we need to do differently in the future?	Looking at what you have learnt, what do you need to do differently in future? Think widely in terms of how you plan and take decisions as well as your activities and how you resource them.
What are the implications for our new plan?	Focus down on the actions you need to include in your new plan.
Conclusion	Sum up – check that everyone agrees – you need positive assent not silence Ask everyone if there is anything else that they want to add Thank everyone Outline next steps

Figure 5: After action review workshop template

Consider breaking into small groups for part of sessions to ensure that everyone can share their insights.

Follow up

- Write up the group's deliberations
- Circulate to check that everyone is agreement with the written summary
- Decide how to communicate your learning with staff, key stakeholders, your auditors and regulators (where appropriate).
- Consider how your learning should shape your response to the crisis and your new plan. Does the plan address the problems identified, where possible? Does the plan exploit the strengths that you have identified? What actions must you take in response to the AAR findings?

Challenges

- This process will be uncomfortable for some, if not all, participants. The discomfort needs to be acknowledged but not allowed to dominate the important discussions you need to have.
- Some people may be tempted to indulge in blaming others for the organisation's current predicament. This instinct needs to be resisted by those leading the organisation and the AAR.
- You will have limited time and resources to undertake the review. The process outlined above is designed to help you identify the key issues quickly. If you want to undertake further investigative work, be clear what you expect the benefits to be before investing scarce resources. If a detailed review is needed, consider employing external advisors who can provide an independent view as well as context specific skills.

Top tips

- Use the review process to build your team not weaken it.
- Ensure that you include multiple perspectives from across the organisation. Listen carefully to all views, especially those of staff whose voices are often not heard.
- If your problems are very serious and/or you expect considerable disagreement over the causes of your problems, bring in an external facilitator if you can.
- Expect the review to be a challenging and uncomfortable process; if it is not, you have probably not really understood the causes of your current situation.

Further resources

Alchemy Research & Consultancy

Alchemy provides a range of online guidance and tools, as well as a regular blog on current issues facing the sector. www.alchemyresearch-consultancy.com Business planning guidance for arts and cultural organisations

A guide to business planning written specifically for the sector which includes guidance on the process of writing a business plan together with practical tips and links to useful resources.

Available at https://www.artscouncil.org.uk/sites/default/files/download-file/Business%20Planning%20Guidance%20for%20arts%20and%20cultural%20organisations.pdf

National Council for Voluntary Organisations

NCVO provides information, advice and guidance for voluntary organisations. It exists to support non-profit organisations in making the biggest difference they can.

Available at https://www.ncvo.org.uk

Nesta

Nesta is an innovation foundation that helps organisations to turn bold ideas into reality. They have published a range of toolkits to support the development and implementation of impactful change.

Available at https://www.nesta.org.uk/help-me-innovate/

Guidance on conducting after action reviews

Guidance on conducting after action reviews

Center for Evidence-based Management

Available at https://www.cebma.org/wp-content/uploads/Guide-to-the-after_action_review.pdf

Mindtools – online skills development portal

Available at https://www.mindtools.com/pages/article/newPPM_73.htm

National Health Service

Available at https://improvement.nhs.uk/documents/2087/after-action-review.pdf

World café: a methodology for having conversations that matter.

The site has many useful resources for having meaningful conversations

Available at: http://www.theworldcafe.com

Section 3: Taking control of your finances

This section includes a range of practical advice for managing your finances in the context of financial difficulty. They have been chosen to reflect the real-world challenges we regularly encounter.

Tools and techniques

- How to de-risk your budget in year
- Alternative approaches to creating a new budget
- How to manage a tight cashflow
- How to write a business plan in a month
- Cost cutting ideas
- Short term income generation

3.1 How to de-risk your budget in year

What's the issue?

During your financial year it becomes apparent that you are unlikely to deliver the financial result you budgeted for by a significant margin. The gap between your budgeted and forecast result is bigger than your available contingency and cannot be bridged by some straightforward cost reduction and general belt tightening. More aggressive action is needed to improve the forecast financial result and to improve confidence that you can deliver the re-forecast result. Improving the predictability of your forecast at a time of trouble has several key advantages.

- It helps to rebuild confidence internally and among stakeholders at a time when unpleasant financial surprises may have eroded it.
- Delivering a lower risk forecast will require less time in both monitoring and taking corrective action; time that can be more productively and enjoyably spent planning for the future.

A **budget** is usually prepared before the start of a financial year. It is based upon a number of assumptions that you are making about financial performance in the coming year. Budgets should not be updated during the year unless there is a truly radical shift in performance that substantially undermines the assumptions that you made at the beginning of the year. The budget's function is to provide a baseline against which to measure your actual performance.

A **forecast** is your best estimate for outturn during the year, based on actual performance to date and expected performance to the end of the year. Forecasts are regularly updated, often on a quarterly basis. In a financial crisis, more frequent updates may be needed. Once approved by your Board, you are working to your forecast not your budget.

Further ideas on the related tasks of cost cutting, short term income generation and managing a tight cashflow can be found in this section.

Process

Step One: understand the situation and set targets → **Step Two:** develop ideas to reduce risk, cut costs and increase income → **Step Three:** choose which actions to take → **Step Four:** monitor and take action as needed

Step One: understand the situation and set targets

Establish a baseline financial forecast and associated 12-month cashflow forecast on an expected basis on the assumption that you take no action.

Questions to ask

- Do you understand why the forecast has deviated from your budget significantly? You don't need to understand every tiny movement, but you do need to know and be honest about the underlying causes of the major surprises.
- Have you tested your assumptions about the short-term future? How good is your evidence base?
- Have you been able to have some robust debates about the projections or have the numbers just been accepted? If it is the latter, consider introducing some more challenge to ensure you have the necessary checks and balances.

Budget assumptions

All of the key assumptions ('informed guesses') that you make about financial performance should be documented when you are creating your budget. Ensure that the bases upon which your budgets are based are understood by their key users, not just the finance manager who created them.

Key assumptions are likely to include: number of tickets to be sold per show/exhibition, gross margin on sales such as café, retail and merchandise, number and quantum of donors, number and value of project grants and their contribution to core costs, permanent staffing and salary levels, temporary staff with pay rates and expected days/hours and VAT status.

If there is considerable uncertainty consider agreeing a main assumption (expected scenario) as well as alternative assumptions under other scenarios, typically pessimistic and optimistic. Using these alternative assumptions to model different scenarios is valuable in normal business planning and essential if you are encountering significant financial difficulty and uncertainty.

Set the financial goals for your de-risking exercise.

Goals should be set in terms of an unrestricted surplus or deficit for the year. Consider setting both a desired and minimum acceptable target; this has the dual benefit of establishing a red line and acknowledging the reality that forecasting is not an exact science. If your baseline cashflow forecast suggests significant problems, you should also set targets for reducing your cashflow risk.

In setting your de-risking targets you should consider the following.

- How strong are your current reserve levels? If your reserves are well below your reserves policy target you will probably need to set more aggressive targets than if your reserves are healthy.
- What are your current plans for the next couple of years? How easy or difficult would it be for you to increase your surpluses in these years? If you are about to embark on major new project or venture, you must have a stronger financial base than if you are planning for business as usual.
- What expectations do you, your Board and your stakeholders have of the de-risking exercise? These expectations may partly be shaped by past performance; if your organisation has a good track record and this year's poor performance is seen as an aberration, they may be comfortable with a less ambitious plan than if the organisation has a history of missing its budgets.
- What are the implications for your cashflow? If you cannot cashflow the baseline projection, then more drastic action is needed than if you can.

Reserves are that part of a charity's unrestricted funds that is freely available to spend on any of the charity's purposes; they used to be known as 'free reserves'.

To calculate your reserves, start with your unrestricted funds and deduct:

- tangible fixed assets used to carry out the charity's activities, such as land and buildings
- programme-related investments those held solely to further the charity's purposes
- designated funds set aside to meet essential future spending, such as funding a project that could not be met from future income
- commitments that have not been provided for as a liability in the accounts

Every charity must develop and keep under review a reserves policy. The policy and any reasons for not complying with must be recorded in the annual report that accompanies the accounts.

An absence of reserves is a good predictor of financial weaknesses.

Step Two: develop ideas – in what ways could we….

You need to ask yourselves four key questions, all in the 'In what ways could we …?'

1. Reduce the financial risk in the current year?
2. Improve our cashflow forecast to reduce our risk?
3. Reduce our costs?
4. Increase our income?

Start with risk rather than immediately jumping into to cost cutting. It helps everyone to see the exercise in the context of the organisation's whole financial model and it avoids starting the hard work with a potentially de-motivating set of conversations around 'What are we going to cut?'.

Generate more ideas than you need; it will allow you to make choices and will also give you a head start if the financial position does not improve as you hope, and further changes are needed.

Reduce outturn risk

Identify your key areas of risk. To make the best use of your scarce time, focus on those areas of significant value and risk.

Think about the following

- In what areas has your organisation previously had problems making its budget?
- Think about areas of your business where you are introducing new products and services and/or selling to new customers. These are likely to be higher risk as you have less information about what will work and may take time to generate income
- Where possible analyse your revenue in terms of how much future income is already secure; for example, advance ticket sales and project grants confirmed. For those elements that are unsecured, how confident are you about the various elements? Are your predictions reasonable? For example, if still have substantial sums to fundraise for through grants, how many applications have you submitted and how many do you have in development; should this be enough given your historic success rate?
- What is keeping you awake at night? What are you most worried about?

Look at the list of risks you have identified. How could you improve the overall risk?

- Avoid the risk in certain activities by not undertaking them
- Share the risk with another organisation e.g. co-producing, insurance
- Manage the risk down to a more acceptable level. This may involve investing additional sums to improve your confidence about securing the desired financial outcome.

Examples of investing to reduce financial risk

- Bring in additional staff capacity, on a freelance or short-term contract basis, to ensure that fundraising targets are met or that a key project is delivered on time and that the associated funding can be claimed in full and on time.

- Investing in targeted marketing to increase the likelihood that sales targets are met.
- Offering financial incentives such as discounts for early bookers and 3-for-2 style offers to improve the predictability and timing of sales.
- Improving your financial systems so staff can spend more time on added value analysis and less time on transaction processing.

Reduce cashflow risk

Review your 12-month cashflow. Identify the pinch points and consider how could you smooth out the inflows and outflows to reduce the risk that you run out of money at a particular point.

Actions to consider

- Negotiate with your funders to reschedule your grant payments.
- Reprofile projects by either bringing forward the dates when you can draw down funding or deferring activity (and expenditure) into periods with less cashflow pressure.
- Negotiate extended payment terms with key suppliers. You will generally maintain better relationships with key suppliers if you are open and ask for a temporary change of terms than merely waiting until you have no alternative except to defer payment.
- Negotiate an overdraft or negotiate an extension of your existing overdraft.
- Undertake a review of debtors and commit resources to chasing actively all overdue debtors. Sometimes small organisations facing financial pressure forget to keep chasing debtors.
- If you hire out spaces, host conferences etc, review your terms and conditions to see if you can increase the deposit.

Do not

- Plan to defer payments to HMRC for payroll taxes or VAT
- Plan to defer payments to your pension provider(s)

Reduce costs

Generate a list of costs you have not yet incurred and could defer. For each consider the impact of deferring the expenditure until next year. It is worth setting a minimum cost level so you focus on costs that will really help you towards your agreed target.

Create a list of costs that cannot be deferred. Exclude those costs that you absolutely cannot avoid incurring but do challenge yourselves when you exclude costs for consideration.

For those costs that remain, set a savings target for each cost type. You may find the simplified table below a useful framework. Once you have agreed what savings you want to investigate allocate responsibility for identifying the savings and a deadline for all ideas to be submitted. Aim for your desired financial goal to stretch yourselves.

Cost	Current forecast expenditure	Desired saving		Revised expenditure
	£	%	£	£
Show budgets	50,000	10.0%	5,000	45,000
Staff costs	150,000	5.0%	7,500	142,500
Premises	75,000	7.5%	5,625	69,375
Administration	25,000	5.0%	1,250	23,750
Total	300,000	6.5%	19,375	280,625

Increase income

You are trying to increase income within a year so your focus should be on generating more revenue from existing offers and existing customers at little or no additional cost to you.

Step Three: choose

Review all the ideas that you have come up with. Choose the combination that best delivers your agreed financial goals and is most congruent or least destructive of your strategic ambitions and sits best with your culture.

Create a new forecast and cashflow projection. Ensure that everyone involved understands the changed assumptions and has signed up to their role in delivering the new result.

Step Four: monitor and take action

See Part A, Section 4: Monitoring your progress

Challenges

- Most de-risking exercises will be conducted at speed and against hard deadlines such as Board meetings and funder drawdown dates. Fitting this extra task into already busy days can be challenging and a source of stress. The timeframe may not allow for the usual processes of budgeting setting and review to be followed – everyone will need to be comfortable with incomplete information and a 'good enough' approach.
- The most productive de-risking exercises draw upon a wide pool of knowledge and ideas from across an organisation and engage people throughout the organisation, so they

understand why they are being asked to do things differently. This need for inclusion can come into conflict with the desire of senior staff and trustees to maintain a level of secrecy about the financial position.

- Many de-risking actions will involve trade-offs from the simple moving of expenditure from one year to the next, thereby deferring but possibly not solving the problem, to making changes in strategic approaches to programming and marketing. Individuals within the senior team and Board will have different views on the desirability of these trade-offs so it is vital that the leadership teams are able to debate difficult questions openly and productively.
- You may need to invest additional sums to de-risk a budget by, for example, providing discounts for early bookers. For some people this is counter intuitive, but it is important to remember that cost cutting alone is rarely a viable strategy in such a value driven sector.

Top tips

- Do not start with cost cutting. Start with reducing risk; it promotes a holistic approach and sets a different, more positive tone.
- Focus on a few areas where you can make a real difference to the outturn. Cutting biscuits for meetings does nothing for your finances!
- De-risking is a project in itself. Break the task up into manageable chunks and work with teams across the organisation who have real insight into the area you want to de-risk.
- Don’t salami slice! When you are working out what your financial gap is, be prudent. It is much better to find that you are going to do better than planned and/or can ease off towards the end of the year than needing to redo the process again in year. Diminishing returns will set in very quickly, people will lose confidence and changes will become ever harder to implement.
- Include some challenge in the process! When teams are up against a deadline and feeling pressured, group think is a very easy trap to fall into. Consider how you could introduce some challenge and some ‘dumb questioning’ into the process. Perhaps a new Board member with commercial experience could come to a session with the express remit to ask tough questions.

Further resources

Interesting blog on de-risking innovation from Thea Dexter at Good Lab

https://cfg.org.uk/de-risking-innovation-to-build-a-sustainable-future

Useful framework for de-risking major projects with a technology focus from Boston Consulting Group

https://www.bcg.com/capabilities/technology-digital/de-risking-large-programs.aspx

3.2 Alternative approaches to creating a new budget

What's the problem?

You need to create a new budget either in year or as part of your usual cycle but your existing way of preparing a budget is not up to the job; you need some new thinking.

Process: possible approaches

Traditional or incremental

This approach can be summarised as +/- x% of last year's figures. It works well in a very stable environment but is of limited value if you need to make significant changes to your financial model for financial or other reasons.

Activity based

This is a top down approach that starts with the desired output targets e.g. sales of £500,000 and then asks what would we need to do to deliver this target and how much would it cost.

Value proposition

With this approach you need to consider three questions

- Why is this amount included in the budget?
- Does the item create value for our customers, staff or stakeholders?
- Does the value of the item outweigh its cost? If not, is there another justification for us incurring this cost?

This approach is about having a different, value based, mindset whilst budgeting.

Zero based

This approach starts with the assumption that all budgets are set at zero and every department or team must justify every expense they wish to incur. This is a very demanding process if followed fully but can achieve substantial savings.

Different levels of involvement

Budgets can be prepared top down, bottom up or using a combination of the two approaches (Figure Six).

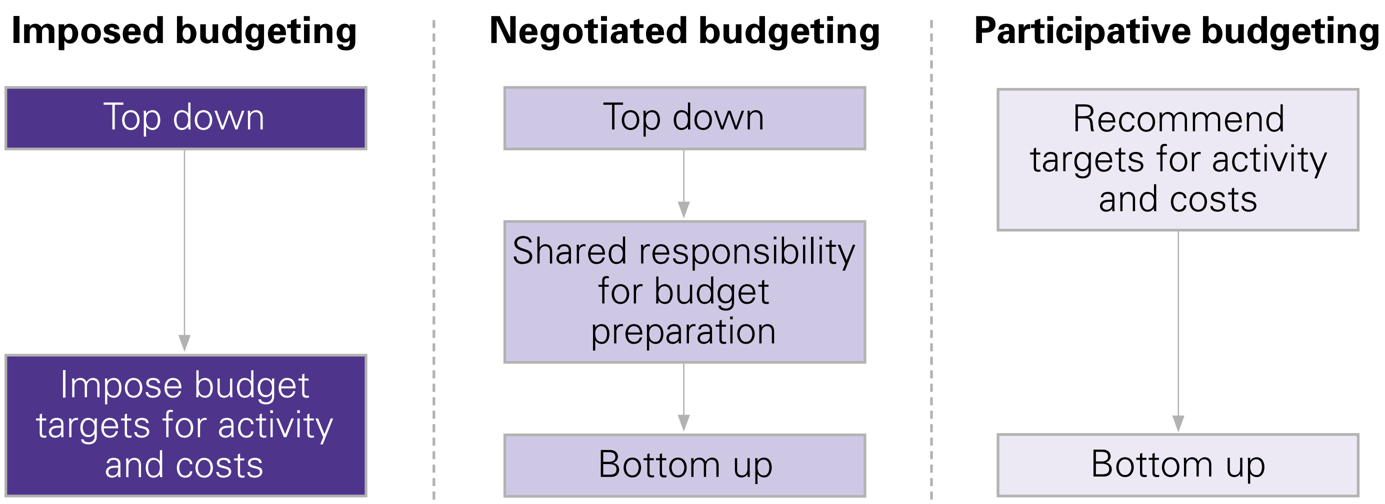


Figure 6: Levels of involvement in budgeting, CFI, 2019

Challenges

- Most people learn to set budgets on the job and often only know one way of doing it, but that way is not going to be good enough for the challenge you face.
- Thinking creatively about money in a crisis, especially when staring at an empty spreadsheet, is hard and can feel counterintuitive.
- It is not uncommon for executives and board members to take different views on the approach to be taken. Try and talk these differences through to reach an agreed approach, otherwise misunderstandings and disagreements will slow you down.

Top tips

- Build a budget model that allows you to ask, 'what if' questions, such as 'What if we increase our audiences by x%?' or 'What if we increase our gross margin on catering by x% or y%?'. The investment in time will be worthwhile.
- You cannot think creatively with highly detailed budget models because your ideas get lost in the profusion of numbers. Start with the big picture. Once you have the right financial model then you can do the detailed work at individual code and cost centre level.
- The first version of any new budget will be unacceptable financially. Do not be discouraged – it merely reflects that your ambition exceeds your resources at that point.
- If cash is an issue, build an integrated model so you can see how changes in your budget affect your cashflow. Some accounting packages have this facility built in – if so, learn how to use it.
- Be willing to use different budgeting approaches for different income and cost categories. Utility bills can easily be budgeted on last year +/- x% unless you are re-negotiating contracts, but a new or reconfigured business area will need a different approach.
- Set clear targets at the beginning of the process in terms of financial outturn and key aims for the period. Work collaboratively within the targets.
- If you are budgeting for new or radically re-designed areas of activity think about how you could test your assumptions during the process. You could ask your peers, look at what local businesses are doing, run mini focus groups and small surveys or benchmark against several similar organisations.

3.3 How to manage a tight cashflow

What's the issue?

Your monthly cashflow suggests that you will need to manage your cash more aggressively than you have done in the past both in terms of timeliness (weekly rather than monthly) and in terms of proactivity (actively planning when to pay suppliers rather than just paying when the invoice is received or on the due date).

If your financial position is precarious and you do not have other sources of funding, your cashflow forecasts will be your most important financial tool. In a financial crisis, **cash is queen**.

Process

Establish a **13-week rolling cashflow forecast** so you always have a detailed picture of your cash needs at least three months ahead.

- Use your existing cashflow format if you can but do not be afraid to change it if you need more detail. You need to be able to understand why any variance occurs.
- Ensure that you can reconcile your cashflow forecast to your cash, debtor and creditor balances including payroll taxes and VAT so that you know your figures are as accurate as they can be.
- Input your actual figures each week so you can compare with your forecasts, understand the differences and improve your forecasting.
- Set a minimum bank balance level or maximum overdraft level which can only be breached with executive/ Board approval. The level needs to allow for emergency calls on cash and might be set at one month's wage bill.

Develop and implement a **creditor management plan**

- Prepare a list of all those you pay or may pay regularly. Separate out those you pay by direct debit and focus on the rest.
- Could you re-negotiate your payment terms with key suppliers? Long standing suppliers, especially local ones, may be willing to agree to a temporary extension of terms from say 30 to 45 or 60 days to help keep you in business and placing orders with them.
- Consider negotiating a payment plan with key suppliers if you have built up substantial balances owing to them.
- Establish a robust system for deciding who to pay on a weekly basis. Review the list. If you cannot pay all the amounts due record the reasons for your choice. These reasons need to relate to the continuing operation of the business. If any of your suppliers are connected with members of staff or members of the governing body, you must not prefer them to the detriment of others because of the connection.

Develop and implement a **debtor management plan**

- Review your aged debtor listing
- Agree a plan and allocate responsibilities for chasing every debt that is overdue
- Consider using a debt collection agency if you have long standing and substantial unpaid debts
- Review the terms you offer customers you send invoices to. Can you introduce/increase the deposit you require? Would it make sense to offer discounts for prompt payment within say seven days? Would it speed up payments if you took payments online?

Challenges

- The organisation may be unused to managing cashflow this assertively and staff may need to acquire new skills and confidence in using them in a short period of time.
- Finance staff will be in the frontline of managing your cashflow and it may be the first time that they have been in this situation. They will need to know that they have the support of the organisation's leaders. Share out the hard work of dealing with unhappy suppliers, do not just expect one person to deal with all of the difficult calls.
- Budget holders may be tempted to hold onto invoices before sending them to the finance department to make the financial position look better, temporarily. Make it clear that this is a bad idea.
- If the organisation has not previously operated a Purchase Order (PO) system one will need to be implemented rapidly. Most accounting packages have PO modules allowing for an electronic rather than paper-based system and these are to be preferred.
- If cashflow has previously not been a concern, be aware that people both inside (staff) and outside (suppliers including artists and freelancers) the organisation may be uncomfortable about and resent a change in practice.

Top tips

- Use an electronic PO system that integrates directly with your accounting software. It will allow you to keep a good track on commitments, which is essential if you are in a crisis.
- Invest time upfront in developing a cashflow model that works and can be reconciled to your accounts. It will save you a lot of time and will help to build confidence in the accuracy of your forecasts.
- If you have not operated a PO system before be prepared for some resistance. Staff who are not used to working within these constraints may resist implementation of the new system. It is vital that senior staff lead by example whilst also making it clear that compliance is mandatory
- If your new way of managing cash is a major departure from your previous practice you must communicate both the reasons for the change and the new procedures clearly internally and, where necessary, externally. Otherwise, staff time will be diverted away from financial management into explaining the change.
- Be willing to talk to key suppliers and to explain your position. Many suppliers will be willing to help keep you in business but if you do not communicate with them, they may feel forced to take legal action that could imperil your entire business.

3.4 How to write a new business plan/transition plan in a month

What's the issue?

Your organisation needs to produce a business plan or transition plan in one month, usually to demonstrate to yourselves and your stakeholders that you can trade out of the current crisis.

This guide offers a stripped back, accelerated process for developing a new business plan in one month. The resulting plan is unlikely to be elegant or beautiful, but it will do the job it needs to do. The methodology draws on that set out in our earlier guidance on business planning (see the list of resources at the end of this section). If you are able to include some of the other activities from that approach, such as a business model workshop or using the Three Horizons approach, your plan will be stronger.

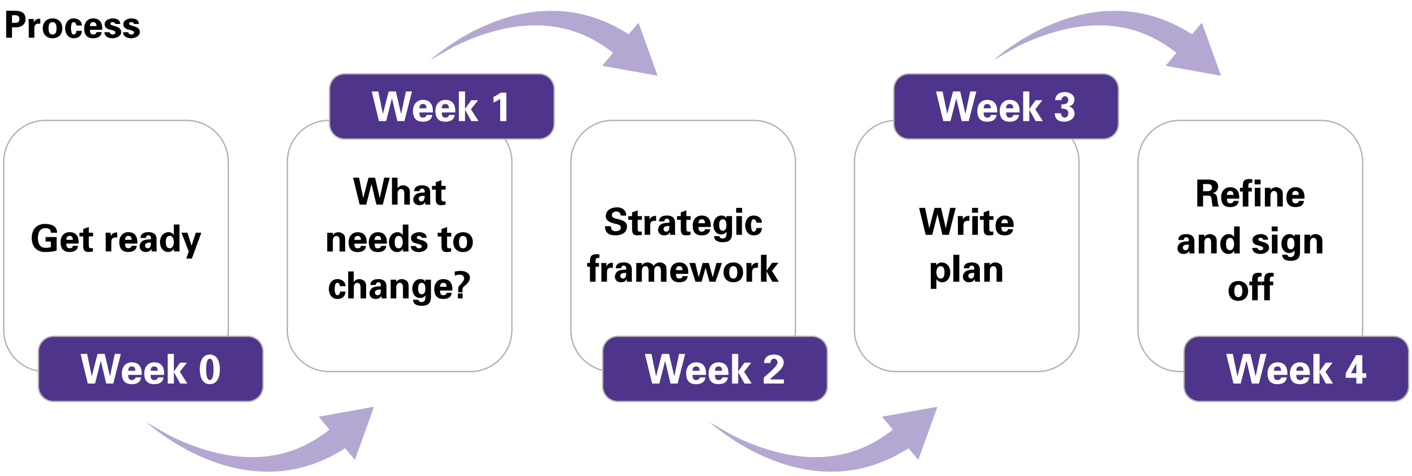
In the context of financial crisis, the terms **business plan** and **transition/turnaround plan** are often used interchangeably.

The two documents are very similar: both represent a plan for action, are built around a strategic framework and include financial projections and a risk assessment but there are differences.

A business plan would usually be for a period of three to five years; transition plans are usually drawn up for periods of one to two years.

A business plan is about the whole organisation whilst a transition or turnaround plan is focused on those elements of the business where the greatest change is needed.

Process



Week	Goal for the end of the week	Key activities
Week 0	An agreed, achievable project plan	• Create a project plan so everyone is clear what you are doing and when • Agree who is going to be involved and how they are going to be involved. Consider trustees, staff not on the senior manager team and essential stakeholders. If your organisation is small do think about how to involve a wider group of trustees and critical friends. • Schedule all meetings upfront • Agree how you will work together • Consider how you will ensure that there is challenge in the process • Create a designated workspace – physical, virtual or both • Ensure that you have a budget model that you can use to ask 'what if' questions
Week 1	Agreement on what needs to change	• Sense check your current vision, mission and values – only change if necessary. Your plan can include a review in year one. • SMT workshop 1 – what do we need to keep, change, stop and start doing? Workshop should consider internal and external drivers for change • Consult departmental teams on what they want to keep, change etc. • Start work on financial projections by including overheads and known activities

Week	Goal for the end of the week	Key activities
Week 2	Agree framework and be ready to write the Plan	• Collate and review insights from wider staff team • SMT workshop 2 – develop a strategic framework for your plan including aims and organisational design principles. • Use the framework to agree who is going to work on which elements of the plan • Share your draft framework and suggested plan contents page with the Board and key funders. Ask for quick feedback. • Continue development of projections – include planned changes
Week 3	Draft Plan ready for circulation	• Managers work on individual sections • Update financial model as further information becomes available. Keep team informed of areas of difficulty and gaps • Pull draft plan and draft projections together. Circulate for comment.
Week 4	Plan ready for sign off	• Continue editing the draft plan where necessary, taking on board feedback as it becomes available • Focus on testing and refining the key elements of the financial projections • Prepare for key meetings – Board and stakeholders • Agree how you will communicate the new plan more widely inside and outside the organisation

Challenges

- Your biggest challenge will be a lack of time to think, to budget, to discuss, to write and to sell the plan. Don't be tempted to work excessively long hours.
- Working at this accelerated pace on a project of this importance can feel very uncomfortable and people may want to slow down. Try to resist the temptation and stay focused.
- You need to secure buy-in from your stakeholders in a tight timeframe, but they may not be used to making decisions this quickly. Flagging up the deadlines and asking them to set aside time in advance can really help.

Top tips

- Embrace good enough!
- Manage your time aggressively, prioritise and commit – this is likely to be the most important activity any senior manager will undertake at the time
- Have a plan and stick to it
- Consider how you are communicating with each other and with those outside the planning group as you don't have time to fix miscommunication.
- Create a space for your team to work together for the duration of this project. It could be a physical space full of flipcharts. Consider using an online collaboration tool.
- Agree upfront how you are going to engage with your Board during the month. We strongly recommend creating a small working group of up to three, appropriately skilled, board members who have the time to be involved. The Board should authorise them to do everything except sign off the final plan. They can provide expertise, challenge and be your advocates at Board level. Their presence will also reassure concerned stakeholders.

Further Resources

Business planning guidance for arts and cultural organisations

A guide to business planning written specifically for the sector which includes guidance on the process of writing a business plan together with practical tips and links to useful resources.

Available at https://www.artscouncil.org.uk/sites/default/files/download-file/Business%20Planning%20Guidance%20for%20arts%20and%20cultural%20organisations.pdf

Business Survival Toolkit.

A selection of some 70 different tools to help you understand the current position of your organisation and consider its future development options.

Available at http://business-survival-toolkit.co.uk/stage-two.html

National Council for Voluntary Organisations

NCVO provides information, advice and guidance for voluntary organisations. It exists to support non-profit organisations in making the biggest difference they can.

Available at https://www.ncvo.org.uk

Nesta

Nesta is an innovation foundation that helps organisations to turn bold ideas into reality. They have published a range of toolkits to support the development and implementation of impactful change.

Available at https://www.nesta.org.uk/help-me-innovate/

3.5 Cost cutting ideas

The following are ideas for cutting costs. All these ideas come from our own experience. Some might be options for you, others may not, but hopefully they will trigger some new thinking.

- Ask your staff and trustees for suggestions on how to reduce costs. Think about examples from other organisations/industries that they know.
- Renegotiate contracts with key suppliers to reduce prices, secure discounts etc
- Restructure the organisation, in whole or in part
- Review your overheads – you can do this inhouse or work with overhead management consultants with whom you agree to share the savings achieved
- Join a buying consortium
- Tender service contracts with a view to getting a better price
- Consider outsourcing functions currently carried out inhouse such as cleaning, payroll, catering, finance processing, HR management
- Make greater use of digital technologies to reduce cost. Examples could include using Skype rather than travelling to meetings, substantially reducing paper usage, actively encouraging greater online booking
- Review your VAT arrangements and see if you can reduce your irrecoverable VAT. You will probably need to engage VAT specialists to do this
- Pay freeze or pay cut for some or all staff above National Living Wage
- Reduce the number of corporate credit cards and mobile phones

Many of these options have disadvantages and require investment to deliver cost savings. However, if you are in a financial crisis, you probably need to cut costs and you will certainly need to demonstrate that you are taking the situation seriously.

Further resources

Blyth, Alex. (2009). 365 ways to cut costs. London: Directory of Social Change

3.6 Short term income generation

The following are ideas for increasing your income generation in the next 12 months or less. All these ideas come from our own experience. Some might be options for you, others may not but hopefully they will trigger some new thinking. None of these options are cost free; they all have downsides, but they may help you survive the crisis, partly by persuading others that you are doing everything you can.

- Incentivise your customers to purchase more and/or purchase earlier through discounts, special offers etc.
- Ask your customer facing staff how they think that they could sell more and for other ideas.
- Alter your programme to include more popular shows/activities.
- Re-negotiate contracts with your business partners especially where those relationships are of long standing and of real value to the other party.
- Benchmark your prices against your competition and increase your prices where possible. Consider all the products and services you sell such as coffee, room hire and drinks not just tickets. Focus on changing those where you can get the best improvement in return in revenue and/or contribution to overheads. It may be helpful and save time/money to involve an external consultant with appropriate experience to support you in doing this quickly.
- Run an appeal – this could be a 'save our theatre' appeal or a fundraising campaign for an area of your work that might be attractive to potential funders including individuals such as work with children. Appeals can be successful but do, of course, carry reputational risk. Consider crowd sourcing. Do not create new activity, you want additional funding for activity you are doing anyway.
- Talk to funders or major donors with whom you have a long term and productive relationship to see if they could make a one-off grant.
- Accelerate your claims for gift aid and corporate tax reliefs – do not wait until the year end.
- Hold a fundraising event but be careful about the risks and costs. Find a supporter who will underwrite the costs if you can.
- Think about what assets or expertise you could sell such as surplus equipment, old sets, costumes or offering your organisation's expertise on a consultancy basis.
- Reduce your office space, possibly through more mobile working, and hire out the space to local businesses.

Further resources

Charities Aid Foundation. (2020) Three ways to diversify your charity's income

Available at https://www.cafonline.org/charities/strategic-consultancy/diversifying-your-income

Section 4: Leadership

- Being an effective governing body
- Decision making

4.1 Being an effective governing body

What's the issue?

Governing bodies are expected to be responsible stewards for the purpose and assets of their organisations. Managing financial difficulties will require the full engagement of all governing body members, particularly any postholders such as the Chair, Chair of the Finance sub-committee and Deputy Chair. The board will need to be working effectively, to understand its areas of responsibility and the levels of risk.

Process

This checklist is designed for use by boards/governing bodies who are facing the possibility of a serious financial crisis or who are managing one. It is structured around three key questions.

1. Does your Board have the skills and knowledge that they need to make good decisions in a crisis?
2. Does your Board have access to the information that it needs to make good decisions quickly?
3. Can your governance processes support effective and rapid decision making during a crisis? A severe financial crisis usually operates as a stress test for Boards; it will expose pre-existing weaknesses.

The questions below reflect what is needed to govern effectively at a time of crisis and our own experience of working with organisations in trouble; it is a pragmatic list not a counsel of perfection (Figure Seven).

Key questions	Y/N	Action required
Skills and knowledge		
1. Do all trustees and directors of subsidiaries understand their main responsibilities under the Companies Acts?		
2. Do all trustees and directors of subsidiaries, understand their obligations under the Insolvency Acts?		

Key questions	Y/N	Action required
Skills and knowledge		
3. Have all trustees read and understood the Charity Commission's key guidance?		
4. Do all trustees and directors understand their key responsibilities as employers?		
5. Do all trustees understand the objects of the charity and their powers under the Articles of Association?		
6. Does the Board have access to the essential financial, legal and commercial skills necessary to manage the crisis effectively? This expertise could come from within the Board or from external advisors.		
7. Does the Chair have the skills, energy and time necessary?		
Access to essential information		
8. Do all Board members have access to up-to-date, accurate financial information including balance sheets and cashflow forecasts?		
9. Do all Board members understand the financial information that they receive?		
10. Do all Board members know, in general terms, who they employ and on what terms?		
11. Are staff contracts and the Staff Handbook up to date and accessible?		

Key questions	Y/N	Action required
Governance processes		
12. Have your Articles of Association been updated in the last three years? If not, do check that they include all the powers that you may need.		
13. Do all Board members understand how Board decisions are made? In the absence of explicit provisions in the Articles, agreed board policies or specific resolutions, Boards can only make their decisions collectively at a Board meeting. For example, independent decision making by a Chair or Finance Committee is only permitted if expressly authorised.		
14. Are you ready to make decisions at speed by, for example, holding meetings via email, skype or WhatsApp? These methods need to be authorised in the Articles.		
15. Do you have a clear policy on confidentiality which everyone understands and has signed up to?		
16. Do you have a clear policy on conflicts of interest which everyone understands and signs up to?		
17. Is the register of interests up to date?		
18. Are your arrangements for minute taking sufficient in terms of accuracy, competence and confidentiality? If not, consider using external support from a law firm or company secretary.		

Figure 7: Board effectiveness questionnaire

The Charity Commission recommends that trustees facing serious financial difficulty address the following:

- Do we consider the risk of insolvency in our general risk assessment?
- When did we last carry out an insolvency risk assessment?
- Are our current assets plus investments less than our current liabilities?
- Are our total assets and foreseeable income less than our total liabilities and expected expenditure?
- Do we regularly have to spend our reserves because our incoming resources are not enough to meet all of the charity's commitments?
- Is there a need to provide additional security for long-term borrowings?
- Are we under pressure from creditors who are chasing overdue payments?
- Is our charity relying on using cash from restricted funds to finance general day to day needs because there are no unrestricted funds available?
- Is our charity reliant on bank loans with unclear renewal or extension options in order to continue its operations?
- Have we adequate financial reporting in place and do the trustees fully consider those reports?
- Have we breached our banking covenants or exceeded our borrowing facilities with no immediate means of restoring the situation?
- Does the charity have potential significant contingent liabilities?

While these questions are specific to charitable organisations, in a slightly revised format, most of these questions are equally useful for other constitutional forms.

Challenges

- If there are governing body members with financial skills, there is a danger that other members will defer to them. All the members should be engaged and should understand the position. This may require additional support or training
- If governing body members are worried about their professional or personal reputation, there may be an increased risk of people leaving and it will be difficult to recruit new members
- Maintaining positive relationships between the governing body and the executive is crucial but can be difficult. Particular attention needs to be paid to strengthening the relationship between the Chair and the Chief Executive or equivalent.
- Too much time can be spent on recriminations and blame. The planning process is likely to require decisive action, a review can be undertaken once the immediate crisis or issue is resolved.
- Leading an organisation in crisis is time consuming and requires rapid decision making. Trustees/directors will need to commit to additional time to the organisation and be willing to respond quickly.

- Members of your governing body may need to take on roles they are unaccustomed to such as addressing staff, meeting regularly with key stakeholders and participating in a redundancy process. Consider what support they might need to perform these new roles well.
- Funders may expect, or indeed require, a change of leadership as a condition of ongoing/additional support.

Top tips

- Everybody needs to bring all of their experience and expertise to the table. Many members of your Board will have faced similar changes in their working lives. Consider how you can best use this knowledge.
- Explore different ways to meet such as video or telephoning conferencing. If your governing documents do not permit this, change them.
- Be willing to change the format of your meetings so you can make the best use of your time. Try out different ways of sharing information such as via WhatsApp or an online project space.
- Create working groups of both trustees and staff to tackle specific problems. Keep them focused and time limited. Be clear about their responsibilities and powers.

Further Resources

Business planning guidance for arts and cultural organisations

A guide to business planning written specifically for the sector which includes guidance on the relationships between governance and business planning

Available at https://www.artscouncil.org.uk/sites/default/files/download-file/Business%20Planning%20Guidance%20for%20arts%20and%20cultural%20organisations.pdf

Business Survival Toolkit.

A selection of some 70 different tools to help you understand the current position of your organisation and consider its future development options.

Available at http://business-survival-toolkit.co.uk/stage-two.html

Governance in the arts and museums: a practical guide

A governance guide and toolkit developed for the Clore Leadership Programme by Prue Skene, Tom Wilcox and Keith Arrowsmith

Available at https://www.cloreleadership.org/resources/governance-arts-and-museums-practical-guide

Also, the resources listed in Part A, Appendix One

4.2 Decision making

What is the issue?

> "Good decision making is not a trait. It's a state that fluctuates." (R.F.Baumeister, social psychologist)

The decisions needed while managing financial difficulties can be wide ranging. It may require a straightforward decision with one quickly identifiable solution e.g. increasing your bank overdraft. If the financial difficulty is nearer the crisis level it is likely there will be more decisions needed and they will be more complex in nature with more people involved in the process.

Process

Decision making can be divided into three stages (Figure Eight) each of which has different characteristics.

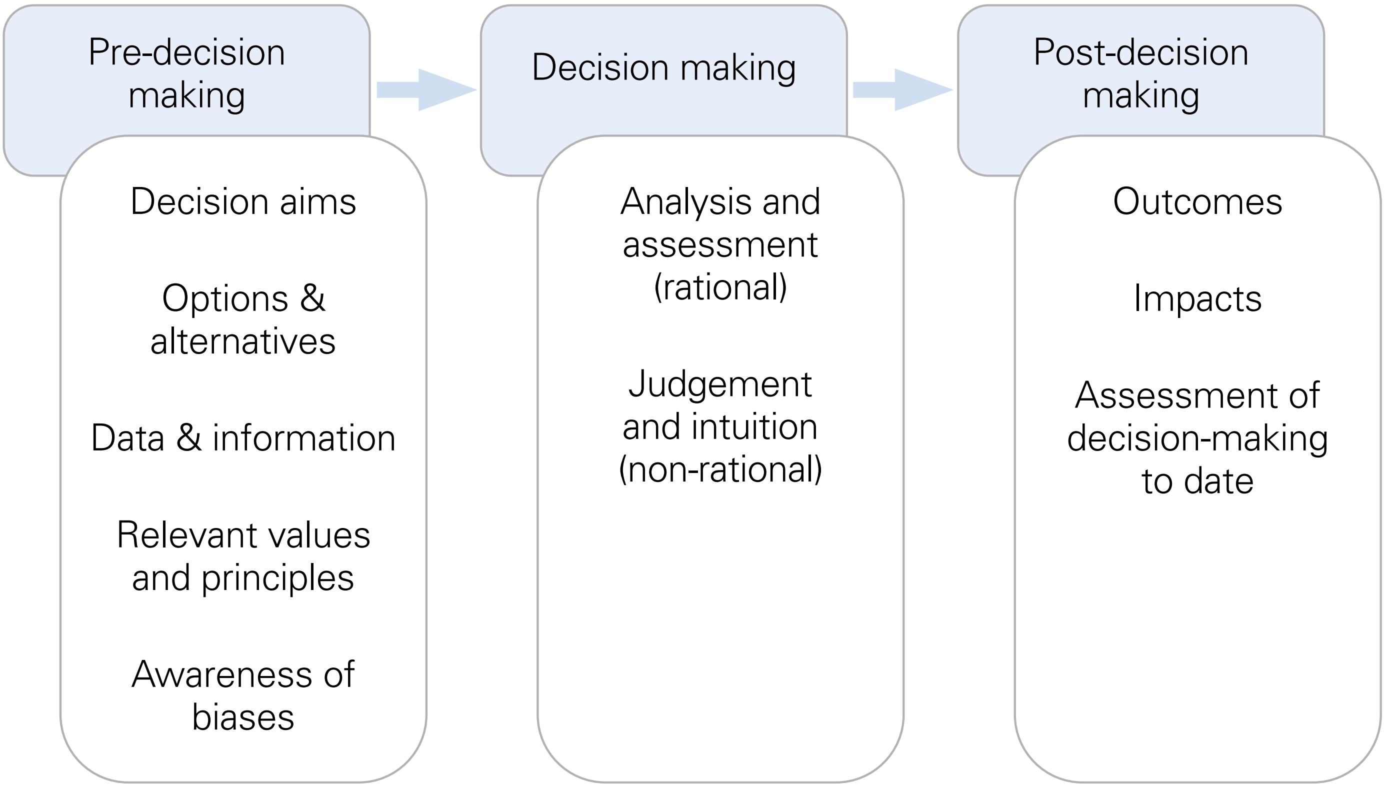


Figure 8: Decision making stages

During pre-decision it is worth understanding:

- The level of uncertainty involved
- The level of complexity
- How high a risk the likely consequences carry
- How many alternatives there are
- How other people might react, or be affected
- What you are bringing to the process

Pre-decision is about getting yourself and the team ready for decision making, making sure you have:

- Given yourself some time out to think it through thoroughly
- Clearly identified the problem and the decision that needs to be made (see problem definition section)
- Looked at all the possible options

In determining your readiness to make the decisions needed it might be useful to ask:

- Is it a good fit with your values?
- Would it help to talk it through?
- Do you need specialist advice?
- Can you test out your likely option to begin with?
- What do you hope will happen?

At the point of making the decision you will be bringing both rational and non-rational characteristics to the situation. Your detailed analysis might suggest a particular route, but your intuition could indicate that a decision will be hard to implement with your team, or your stakeholders might reject it.

A rational approach is generally theoretical, deterministic, based on complete data sets, geared towards certainty, and suggests there is an optimum outcome. Non-rational approaches tend to be descriptive, are probabilistic, based on incomplete information, and are geared towards complexity. Neither rational or non-rational processes are better or worse than the other, it is about managing a balance and understanding when you are using them.

Decision making models

Most decision-making models are based on a rational approach and outline a clear step by step process, the OODA model is probably the simplest:

1. Observe: gather all the information you can, review previous experience and keep an open mind
2. Orientate: be aware of your own biases or those of others, analyse the evidence
3. Decide: choose your favoured option, but be open to review and changing direction as you go
4. Act: implement the decision you have made and monitor the results

OODA is described as a loop because the process will keep repeating itself, and you may be at different stages with a range of decisions at the same time. These frameworks can be helpful in setting out a clear procedure but as is highlighted above it is worth keeping in mind it is not necessarily a rational and dispassionate process.

Fair decision making

The experience of a not very fair process can destroy an otherwise desired result

And reversely:

The experience of a fair process can create acceptance of an undesired result (Dall & Thielke, 2017)

Fair decision making is a core element of ensuring fair process (Section 2) and while this may be self-evident, it is not always easy to achieve particularly when the situation is stressful or decisions need making quickly. Establishing a culture of fairness regardless of any crises will mean your organisation is more robust when it comes to future challenges. Fulfilling several criteria (Figure Nine) can help ensure your decision-making process has fairness at its core.

Indicator	Characteristics	Making it happen
Consistency	The same measures and processes are applied and when repeated produce the same results	• Common decision-making tools and processes • Training in tools and processes • Consistency checks and mechanisms • Document templates
Reliability	Stable and consistent data collection. Performance and outcomes should reflect real change rather than variations in data collection and analysis	• Goals identified • Detail preparation – tools like SCAMPER (substitute, combine, adapt, modify, put to another use, eliminate and reverse) • Training • Monitoring and evaluation
Transparency	Easily understood, recognised and clear. Organisation has a culture that is open and honest	• Common decision-making tools and processes • Document templates • Monitoring and evaluation processes • Decisions recorded and communicated • Outcomes and impacts recorded and communicated

Indicator	Characteristics	Making it happen
Accountability	Liability to account for and answer for one's conduct and performance	• Job roles and accountabilities clearly defined • Governance & management policies established setting out delegated authority
Evidence based	Conscientious, explicit and judicious use of current best evidence in making decisions	• Technology supported data collection • Monitoring and evaluation policies established and implemented • Training and development in data collection and analysis
Aware of bias	Ability to recognise one's personal views and their impacts. Ability to represent information in an impartial and dispassionate way	• Unconscious bias training • Bias policies • Mentoring and coaching support

Figure 9 Fair decision-making indicators (adapted from: Cox, Strang, Sondergaard, & Gionzalez Monsalve, 2017)

Prioritising decisions

Decisions are not made in isolation, so it is worth considering the context in which they are having to be made. Can you identify each of the following in relation to your context?

1. Constraints: are you clear on your constraints – time, money, expertise etc?
2. Preferences: do you or your organisation have a preferred approach, and are your criteria clear?
3. Alternatives: Have you generated as many alternative options as possible?
4. Information: are you as informed as you can be in the timescale available about various alternatives?

Prioritising tasks

One of the challenges of managing financial difficulty, particularly if organisational change is involved, is that you need to manage the day to day operational issues at the same time as leading a strategic process.

In roles that are already likely to be at full capacity this can feel overwhelming for you and others that are involved. Prioritising is something that tends to get a lot of lip-service, but we are not always very good at following it through. There are lots of tools available to help; the one that most people know is Eisenhower's Urgent/Important grid (Figure Ten).

	Less urgent	Urgent
Important	**Goals and plans:** These need time set aside and focus as they set future direction	**Crisis:** immediate priority
Less important	**Distractions:** Ignore them!	**Interruptions:** delegate where you can and only do those things that don't interrupt the more urgent tasks

Figure 10 Eisenhower's urgent/important matrix

A simpler but often more achievable approach is the Ivy Lee method. This involves preparation, ranking and focusing on the things that must get done. It has four steps:

1. At the end of your working day make a list of the six most important things you must achieve the following day (you can have less but no more!)
2. Organise the tasks in order of importance
3. The next morning concentrate on the most important task first and work on it until it is finished. Do not do anything else until it is done
4. Keep working through the list and any that are left unfinished should be carried over to the next day

Setting your priorities makes sense in principle but in practice we all find it challenging, try and be realistic about how much work you can do each day. Before you prioritise it might be worth assessing how much time you have in a day for being productive: deduct breaks, interruptions, meetings, doing emails, phone calls and so on. You may find you are only left with a couple of hours to work on your priority list. If that is the case, look at how you can deal with your other activities to free up time to work on the urgent/important tasks.

Challenges

One of the challenges of our fast-moving environment and managing financial difficulties is that we can become fatigued by the number or scale of decisions that are needed; be aware of when you might be reaching decision fatigue. Notice when you are finding it harder to choose between options, are avoiding making decisions completely, or are just going with 'any old' option to get something done.

Top Tips: You can manage decision fatigue in several ways:

- Self-awareness: know when you are at your best in the day or the week. Most people make better decisions in the morning
- Watch for the 'what-if' rabbit hole: it's important to assess alternatives but notice when this is taking you off at tangents or you are using incomplete

information as a means for avoiding the decision

- Prepare: give yourself time and space to be ready for decision making meetings, communicating with others, and avoid making decisions on the run
- Try and make less decisions overall: reduce the number of routine decisions you make to give space for the non-routine
- Delegate: if you have a wider team make sure you delegate as appropriate. Beware being the only one who can 'fix' things
- Find the tools that work for you: there are wide ranging matrixes, decision making tools and information collection methods. Be clear about the ones that work best for you
- Stop second guessing: be aware when you are second guessing the responses of your team or stakeholders. Their views are important but notice when you are making assumptions about them and when you have the most up to date information to confirm your views
- Beware aiming for perfection: perfection can have two forms. The negative side pushes us towards unattainable goals, poor self-acceptance and exhaustion. Positive perfectionism also sets high standards but allows for more adaptability and the ability to accept when change is needed

Resources	
Pre-decision	• Strengths, weaknesses opportunities, threats (SWOT) • Environmental analysis – Political, environmental, social, technological, legal, environmental (PESTLE) • Pareto principle • Star bursting • Step ladder technique • 5 Whys • Stakeholder analysis • Charette procedure • Root cause analysis • Appreciative Inquiry • Problem definition process • Customers, actors, transformation process, world view, owner, environmental constraints (CATWOE) • Brainstorming • Reframing matrix • Concept fans • Analytic hierarchy process

Resources	
Decision	• Go/No go decisions • Decision Matrix Analysis • Cost benefit analysis • Paired comparison • Decision trees • Six thinking hats • Affinity diagrams • Risk analysis • Opportunities, risks, alternatives & improvements, past experience, analysis, people, alignment & ethics (ORAPAPA) • Futures Wheel • Force field analysis • Multi-voting • Modified Borda Count • Harnett's Consensus-oriented Decision-making Model • Bain's RAPID framework • Business experiments
Post-decision	• Dashboard • Blindspot analysis • Ladder of Inference • Decision regret scale • Impact analysis • Audit • Financial analysis – income & expenditure, cashflow, balance sheet

Section 5: Change and Transition

5.1 Organisational Development interventions

What is the issue?

Dependent on the nature of your financial difficulty there will likely be an organisational development need, this will help you address the issue, learn from what has happened and develop a future focused action plan to prevent a reoccurrence.

Process

Organisational development interventions can range from skills training for an individual through to a whole organisation and stakeholder World Café. There are a wide range of interventions (Figure 11) and they can be managed internally or by an external facilitator/s. Selecting the right intervention will be dependent on an honest analysis of the underlying issue and that may mean asking some difficult questions of yourself and your team.

	OD interventions		
Level	**Individual**	**Team**	**Organisational**
1 – troubling indicators	• Performance review • Training • Role review	• Post-event review • Brainstorming • Governance review	• Team briefings • Process review • Brainstorming • Documentation
2 – worrying but manageable	• Continuing Professional Development (CPD) • Performance review and monitoring • Role review/s	• Post-event review • Brainstorming • Small Change®	• Team briefings • World Café • Brainstorming • Small Change®

	OD interventions		
Level	**Individual**	**Team**	**Organisational**
3 – potential crisis	• CPD • Performance review and monitoring • Job redesign • Coaching • Mentoring	• Facilitated meetings • Scenario thinking • Ideation • Governance review • Graphic facilitation • Study Circles • Learning History	• Appreciative Inquiry (AI) • Open Space Technology (OST) • Future Search • Scenario Thinking • Organisational Redesign • Dialogue and Deliberation • Ideation • Search Conference • Rapid Results • Graphic Facilitation • Real Time Strategic Change • Learning History
4 – crisis	• CPD • Performance Review • Job Redesign • Coaching • Outplacement • Redeployment	• Ideation • Brainstorming • Governance Review • Study Circles • Strategic Visioning	• AI • Organisational Redesign • Ideation • Dialogue and Deliberation • Dynamic Planning Charrette • Future Search • Search Conference • Real Time Strategic Change (RTSC) • Strategic Visioning

	OD interventions		
Level	**Individual**	**Team**	**Organisational**
5 – serious risk of insolvency	• Coaching • Counselling • Redeployment • Outplacement	• Coaching • Counselling • Redesign	• Organisational Redesign • Outsourcing • RTSC

Figure 11 Indicative organisational development interventions

It is likely that interventions at Level 1 (Troubling Indicators) will be minimal and focused on the specific issue. Interventions at Level 5 (Serious Risk of Insolvency) will be dependent on how advanced the issue is and whether an Insolvency Practitioner (IP) is engaged. If an IP is appointed the control of the process will no longer be at the discretion of your organisation.

Levels 2 – 4 can be supported by a wide range of interventions, the table outlines some indicative approaches and highlights that everyone can be involved from individual staff members to the governing body and stakeholders. Identifying and training internal change agents to help deliver these interventions can help resolve the immediate issues and build capacity and effectiveness for the future. Dependent on the depth of the crisis it may be more appropriate to appoint an external change agent who can help you take a more dispassionate view of the situation and manage any conflicts that may arise. Increasingly, organisations are turning to a 'Change Coach' who can help guide the process but are not necessarily running the interventions.

Challenges

- Managing change and transition, and financial crisis at the same time as still running the day to day business can be demanding and stressful.
- Keeping people motivated, informed and engaged. Ideally, you want to bring people with you on the process there may be aspects, such as restructuring, you cannot share openly until you have been through a formal process.
- There may be other changes happening in your operating environment at the same time as you are working on a non-routine change related to your financial difficulty.

Top Tips

- Consider bringing in organisational development (OD) expertise, especially if you need large scale change
- Look for 'bright spots' where things are already working that you can multiply across your organisation
- Be prepared to let go of control, don't try and implement a strict change plan you need to be ready to adapt

- Model the change you want to achieve – people need to 'see the change to be the change'
- Focus on dialogue and listen deeply
- Be aware of your obstacles, understand what you can control, what you can influence and what is out of your control
- Monitor and capture evidence of success, celebrate your successes

Further Resources

- Business survival toolkit
- Roffey Park Research: https://www.roffeypark.com/research-insights/free-research-and-insight-report-downloads/

5.2 Communication

What is the issue?

Internal and external communication will be a core element in planning how to manage your financial difficulties. Stakeholders and governing bodies tend to dislike surprises, so it is important to involve them as early as possible in the process. Equally, your team (if you have one) will be looking to you to explain what is happening and to involve them in managing the financial difficulties.

Process

As well as determining who you should be engaging it is worth keeping in mind the level of communication type (Figure 12). This drives the timeline for communication and whether it needs an immediate response or if you have more time to formulate your approach. If you have been monitoring the actions of your stakeholders, you should have a sense of what will need addressing when. When the communication level reaches intense or severe you should be thinking about your available resourcing and it may be worth investing in external expertise. If your financial difficulties mean you are approaching possible insolvency and external interest has reached severe levels it is likely an external PR agency will be needed.

Level	Characteristics
Severe	• Media have an urgent need for information • Stakeholders or staff are publicly angry • Press are seeking live coverage • Situation has legal implications
Intense	• Increasing attention from local and regional media • Media are contacting board and staff • Stakeholders, community or partners seek face to face discussions • Regulatory stakeholders need contacting

Level	Characteristics
Moderate	• Situation is slowly attracting attention • Some local media interest • Stakeholders and public may be aware of the situation
Minimal	• Little or no attention externally • Limited awareness of the issue • Issue is managed swiftly

Figure 12 Assessing the communication level

Crisis response guidelines highlight the importance of you communicating first, a concept known as 'stealing thunder,' where you disclose the issues before someone does it for you. Once a crisis hits you need to:

- Be quick
- Be accurate
- Be consistent

Internal communication

Given that you are likely to be tackling several issues at once there is a tendency to focus on external stakeholders and internal communication becomes more of an afterthought. Keeping your team informed and aligned, as well as maximising their expertise will be an important part of the process. An internal communication plan should include (see resources and references for an internal communications template):

- Why: Communication aims
- What: Key messages
- Who: Key audiences. If you have a small team you might want to consider this in terms of individuals, for a larger organisation it may be teams
- Who: those responsible for delivering the plan
- How: Channels, systems, processes
- When: timelines
- How well: monitoring effectiveness

Having a clear plan for internal communication will improve trust by building transparency and will help manage informal communication. The 'Grapevine' can have advantages in terms of building relationships, connecting people, and it works flexibly, however it can also distort your messages. Managing the rumours before they start will help build dialogue and make the most of informal communication. Getting communication and engagement right is likely to be about the art of the possible. It will never be perfect but forward planning will help, if nothing else it should identify who you need to be thinking about and when.

Challenges

- Getting communications right takes time and careful handling, this can be challenging in a situation that is already stressful

- Dependent on the nature of the difficulty you may not have the necessary communications skills in house
- Ensuring consistent communication across all aspects of your organisation can be tricky and there may be a need to reinforce confidentiality during the process
- Sometimes leaders try to protect their teams by limiting the amount of information available, this is seldom an effective approach as it can lead to mistrust and the spread of damaging rumours

Top tips

- Be prepared and proactive. Make sure you understand the situation as best you can.
- Undertake a 'what if?' exercise to imagine different scenarios and how you might respond.
- Respond quickly.
- Ensure there is someone designated to manage your communications, dependent on the extent of the crisis you may need to bring in PR expertise
- Leverage your supporters and advocates.
- Keep messages consistent.
- Be transparent.
- Be ready to manage a possible social media backlash

Section 6: Managing self and others

What is the issue?

Recognising that financial difficulties can range from mildly worrying to existence threatening for an organisation as we have seen requires a range of responses. The area that most often gets neglected is understanding its impact on you and your team. There can be a tendency in change situations to focus on the likelihood of unhelpful behaviours (often referred to as resistance), but it is worth noting that it can also generate positive behaviours [Table One]. Rather than trying to second guess underlying motives try to focus on observable behaviours as they provide the best opportunity for constructive feedback.

Level	Positively toned behaviours	Negatively toned behaviours
Level 1 Troubling indicators	• Problem solving • Shared responsibility • Joint working	• Blame • Denial • Avoidance
Level 2 Worrying but manageable	• Problem solving • Shared responsibility • Joint working • Honest conversations	• Blame • Denial • Avoidance • Being judgmental • Disengaged
Level 3 Potential crisis	• Problem solving • Consensus building • Partnership working • Honest conversations	• Blame • Denial • Avoidance • Disengaged • Gossiping and rumour starting

Level	Positively toned behaviours	Negatively toned behaviours
Level 4 Crisis	• Problem solving • Partnership working • Collective responsibility • Going the 'extra mile' • Honest conversations	• Blame • Denial • Avoidance • Disengaged • Absenteeism • Poor communication
Level 5 Serious risk of insolvency	• Problem solving • Collaboration • Putting the needs of the organisation first • Sharing knowledge and insights	• Blame • Anger • Disengaged • Obstruction or sabotage • Absenteeism

Table 1 Indicative observable behaviours during financial difficulties (Alchemy Research & Consultancy, 2020)

Process

In addition to understanding behaviours there can be a wide range of emotional and psychological issues to address, in order to ensure everyone is appropriately supported. It is important with these to recognise where you or others in the team have the capability to provide support and where more specialist help is needed. The core issues that are likely to arise are:

- Challenging assumptions
- Board or team dynamics
- Stress and anxiety
- Trust
- Shame

Challenging assumptions

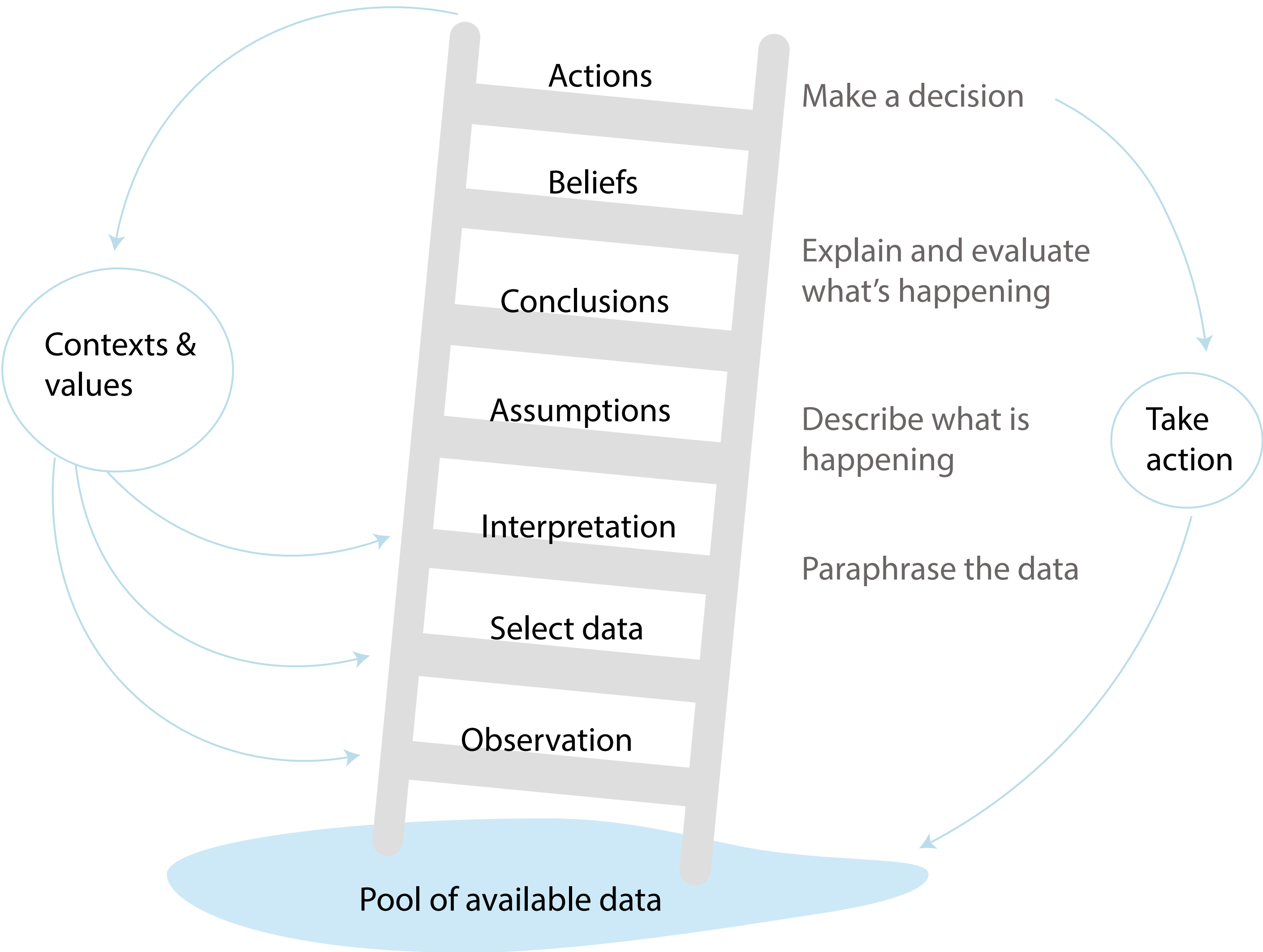
> We don't see things as they are; we see them as we are. Anais Nin

Managing financial difficulties often has wider organisational implications and while the severity may vary it generally requires a degree of organisational change. This will mean finding new ways of doing things that in turn asks us to look at the assumptions we have about our organisation and its environment.

When we meet new or novel situations it is best to try and approach them with an open mind. This allows us to take on new experiences and start to make sense of them; we see it with 'fresh eyes.' This is partly what allows us to learn. If we have been in an organisation or a situation for a while, we will have formed a range of assumptions about our context and these can become taken for granted.

Regardless of the severity of your difficulties it will be important to take a step back and ask yourself about the assumptions you are making and whether they are appropriate or not.

LADDER OF INFERENCE



Model by
Chris Argyris
(1923-2013)

Figure 13: Ladder of inference (adapted from Argyris, 1982; Senge et al, 1994)

If we become over familiar with a situation, we can jump up the Ladder of Inference (Figure 13) and even miss some of the rungs, for example:

1. Observable data: a member of the team is constantly looking at her phone and not contributing to the meeting
2. Adding meaning: When someone is not contributing it means they don't care
3. Belief: If people don't care they don't deserve to be part of the conversation
4. Action: I won't invite that person to future meetings

This simple example shows how quickly we can race up the ladder and form assumptions that we don't necessarily test, often because we feel like we have been in a similar situation before and that was what was needed then. In this circumstance there could be many reasons why looking at the phone is important – a sick relative, an important funding decision result, test results that might be urgent, a ground rule of not bringing phones to meetings has not been agreed etc. The best course of action would be to go back to test the data you have selected and talk to her about what happened in the meeting and why.

Before you act during financial difficulties it can therefore be helpful to step back and ask yourself what assumptions you are making. Complete the reflective questions exercise to help you work your way back down the Ladder of Inference and consider why and how you have decided on the action plan you are proposing.

E: checklist for underlying assumptions

Question	**Comment**
Why have I decided on this course of action?	
Are there alternatives I should consider?	
What beliefs have informed the action/s I have chosen?	
Are they reasonable in this context?	
How have I formed these conclusions about the situation?	
Are my conclusions justifiable?	

E: checklist for underlying assumptions	
Question	**Comment**
What am I assuming about the situation and why am I making those assumptions?	
How valid are those assumptions?	
How have I selected the data I am using and why?	
Have I been rigorous in my selection and what might I have missed?	
What data have been considered?	
Have I genuinely observed or experienced the data I am now relying on?	

When you work through the process try to notice rungs on the ladder you have a tendency to jump over – it might be data collection because you think you've been through something similar before, or it could be that you leap quickly from data to conclusions.

Stepping back to reflect might feel like a luxury you can't afford. However, it should help you avoid leaping to conclusions. It is also a useful approach to work through with others in your team or your governing body to help understand the assumptions they bring to the situation and what they are based on. Working through this kind of process can help improve communication and decision making in three ways:

1. Reflection: you become more aware of your own thought processes, where you are strong and where your weaknesses lie
2. Advocacy: you will be better able to explain your thought processes and conclusions to others
3. Inquiry: you will be more attuned to inquiring into other people's thought processes

Board or team dynamics

Group based decision making brings its own challenges and while many people are now familiar with the stages of group development or the different roles played by group members there are two specific dynamics to consider when groups are making decisions – group think and group shift. Groupthink (Janis, 1972) comes about when the drive for consensus becomes the overriding norm and means that dissent or differences tend to be ignored. This can be manifest in several ways:

1. However strong the evidence against a course of action the group has become powerfully committed and any resistance is rationalised away
2. Members of the group apply pressure to anyone who momentarily expresses a different view to regain consensus
3. Even where members of the group might have misgivings about a direction, they avoid speaking out so as not to deviate from the group
4. There is an illusion of unanimity and if someone does not speak up that is taken as agreement – silence = a 'yes' vote

Groupthink is most likely to occur where there is a strong, positive group identity that members wish to protect and there is a perceived threat to that identity. So, it is not about suppressing views so much as positively reinforcing a group's view of itself. Groupthink can be minimised by:

- Keeping the group size smaller so everyone has to take responsibility for their contribution
- The group leader occupies as impartial a role as possible
- A member of the group is appointed as 'Devil's Advocate' to ensure different perspectives are aired
- Undertaking different problem-solving exercises to ensure the discussion is opened up

If a team (either staff or governing body) has worked together for a period of time and there is a real sense of consistency about its vision and approach and there tends to be little tension or conflict at meetings and everyone generally agrees, the group is in danger of groupthink. This is because differences of opinion become much harder to express.

Groupshift, on the other hand, (Hoyt & Stoner, 1968) comes about when the decisions of the group are significantly distanced from the decisions individuals might make, either they become more cautious or, more often, they become more risky. This may be because members have become more comfortable with each other and are therefore likely to become bolder, or peer pressure means no-one wants to be seen as more risk averse than the other group members, or most likely is that group decisions make individuals less accountable and therefore if a decision fails the group is held responsible.

There are several ways to avoid group shift:

- Greater recognition of individual positions before the group decision is made
- Asking for individual perspectives before any discussion occurs
- Asking someone in the group to be responsible for monitoring the gap between individual perspectives and the group position

- Using creative problem-solving exercises to ensure the group tests different scenarios or possible outcomes

Group shift also comes about where differences of opinion may be hard to surface. This can become an issue during financial difficulties. Collectively the group can become much bolder than the individuals might feel, and it becomes difficult to be the odd one out, which can lead the group to much riskier (or much safer) decisions.

Stress and anxiety:

The HSE defines stress as ‘people’s natural reaction to excessive pressure.’

Work-related stress can be defined as a pattern of emotional, cognitive, behavioural and physiological reactions to adverse work conditions. ACAS points out that a degree of pressure can be positive, keeping people motivated and fuelling their ambition. Too much pressure and we start to feel overloaded, which can affect how we work, our productivity, and our health.

The HSE has identified seven areas of risk factors for work-related stress:

- Culture: lack of engagement, poor communication, long work hours, lack of consultation
- Demands: lack of challenge, work overload, lack of training, high paced work
- Control: low levels or lack of control, lack of involvement in decision making
- Relationships: lack of support, ingroup/outgroup, harassment, bullying
- Change: perpetual change, non-routine change, scale and pace of change
- Roles: role conflict, ambiguity, span
- Training and development: lack of support or feedback, lack of training, skills mismatch with role, lack of constructive support

There are a range of things you can do to help minimise stress and anxiety while you are managing your financial difficulties:

- Ensure enough time and as much individual autonomy as possible. People tend to feel most stressed when they have little or no agency in a difficult situation
- Clarify roles and tasks. Giver regular and constructive feedback
- Inform and involve others. Don’t keep it all to yourself if you are managing the situation
- Implement clear policies that support the process and are fair
- Ensure fair work distribution: make sure the burden doesn’t fail disproportionately on a few individuals
- Think about acknowledgements. Small rewards and celebrations can be very important during a tricky situation
- Ensure open and two-way communication

The legal position

The Health and Safety at Work etc Act 1974 states that ‘every employer should ensure, so far as is reasonably practicable, the health, safety and welfare at work of all of their employees'. The Management of Health and Safety at Work Regulations 1992 require employers to adopt appropriate risk management techniques such as:

- Identifying any hazards and assess all the risks to the health and safety of employees and record the findings of the assessment. Stress should be considered along with other work hazards.
- Reviewing and modifying risk assessments at regular intervals, including when there are developments or changes in the work or if 'adverse events' have taken place.
- Providing health monitoring where the risk assessment shows that adverse health conditions have occurred or are likely to occur under the particular conditions of work. This may aid early detection of stress.
- Applying the following principles to preventative and protective measures:
  1. Avoid the risk altogether
  2. Combat risks at source
  3. Wherever possible, adapt work to the individual
  4. Implement improved working methods and technological changes, where these can make work safer
  5. Incorporate risk prevention strategies as part of a coherent policy
  6. Give priority to those measures that protect the whole workplace.

However well-intentioned our actions are you need to be aware of how they might be interpreted by others [Table Two]. This highlights the need to keep communication as open and honest as possible while you are managing your financial difficulties.

Your motivation	How it might be perceived positively	How it might be perceived negatively
I want to protect my team/others	They've got this, I don't need to worry	They keep everything to themselves…what are they hiding?
I need to be firm and decisive	I am confident a plan is in place	They are controlling and don't listen to anyone else
I can't share anything until it's fixed	I know they'll tell me when they are ready	We don't have a clear sense of direction
I will share everything, so everyone's involved	I feel fully informed	This is overwhelming, why doesn't someone take the lead
No-one else can fix this	They have the skills and experience to deal with this	I have some good ideas that will help but no-one is asking me what I think

Table 2 How our leadership behaviours can be interpreted

If you are leading the process of managing a financial difficulty, there can be several on-going dilemmas in the process:

- Open vs. closed
- Individual vs. shared responsibility
- Attribution vs. blame
- Quick fixes vs. long-term resolution
- Being optimistic vs. realist likelihood of success
- Confident vs. doubtful

You will need to judge each situation on its merits as to how you balance these dilemmas. You will also have to be mindful that in some cases you can exercise your own judgement and in others you will be bound by a legal or regulatory framework such as employment law. This can sometimes be uncomfortable for you and the team when you have to move from open communication to keeping issues confidential.

Anxiety differs from stress in that it is a feeling of worry, fear, nervousness or unease. At work it can result from your workload, conflict, feeling overwhelmed, or not being able to perform as you would like. It is not uncommon to feel anxiety from time to time, when an important report is due or before you have to give a presentation to a large group. It is, however, usual for the anxiety to pass after the event has ended. If the anxiety persists or feels out of proportion (in, you or you notice it in others) it is important to seek support.

Top tips: NHS guidance suggests a number to techniques for coping with anxiety:

- Understand your anxiety: try keeping a diary or journal that identifies what's is affecting you and when
- Challenge your anxious thoughts: work at reframing unhelpful thoughts
- Make time for worries: set aside specific time to go through your worries each day. This will help to try and keep them more contained
- Shift your focus: try relaxation, mindfulness or breathing techniques
- Face the things you want to avoid: this can be good for stress and anxiety. Tackle the big things you need to address
- Get to grips with the problem: try different problem-solving techniques, like chunking (breaking a problem into meaningful chunks), to help make the challenges feel more manageable

Stressors

Stress and anxiety may arise throughout the process and is not just limited to when the problem is identified. It is likely to occur at any point and will vary dependent on the level of change the situation requires. If it is a tame problem and a solution is quickly identified there may be limited anxiety at the beginning. If it is more complex and radical solutions are needed you are likely to go through three phases of change that will each carry their own stressors (Table Three).

Pre- change phase	Transition phase	Post-change phase
• Relationships – internal and external • Limited resources • Workload • Responsibility • Insecurity	• Uncertainty • Unclear roles • Lack of consultation/ participation • Conflict • Relationships • Stress of others	• Continued uncertainty • Workloads • Inadequate resources • Relationships • Change but no apparent gain • New organisational design • Survivor syndrome

Table 3 Stressors in relation to phase of change

Trust

> Trust is one party's willingness to be vulnerable to another party based on the belief that the latter party is 1) competent, 2) open, 3) concerned, and 4) reliable. (Mishra, 1996)
>
> Higher level of trust motivates employees towards team and organizational goals rather than individual objectives (Mishra, 1996)

Trust is an important part of building an effective and adaptable organisational culture, it is particularly important when you are facing a disruptive event. Trust cannot be assumed, and we all have different perceptions of what trust means. It is built over time and needs to be maintained. The ABCD trust model outlines four elements that support organisational trust that are underpinned by competence, integrity, care and reliability.

Able Demonstrate Competence Get quality results Resolve problems Develop skills Be good at what you do Get experience Use skills to assist othres Be the best at what you do	**Believable** Act with Integrity Keep confidences Admit when you're wrong Be honest Don't talk behind backs Be sincere Be nonjudgemental Show respect
Connected Care About Others Listen well Praise others Show interest in others Work well with others Show empathy for others Ask for input Share about yourself	**Defendable** Maintain Reliability Do what you say you'll do Be timely Be responsive Be organisaed Be accountable Follow up Be consistent

Figure 14 ABCD Trust Model (Blanchard, Olmstead, & Lawrence, 2013)]

Trust is closely linked to fairness and supports collaborative behaviour and commitment to the organisation. This can be a significant advantage when you are trying to manage financial difficulties as it can aid open communication, joint problem solving and willingness to change.

Creating a culture of trust involves:

- Timely feedback and recognising achievements
- Working on goals that are ambitious and stretch people
- Giving team members autonomy
- Engaging team members so they have a say in their work
- Frequent and effective communication
- Building relationships
- Creating a safe environment by sharing vulnerabilities appropriately
- Supporting team members to grow and develop

Embedding these characteristics requires strong organisational values that are put into practice, ongoing dialogue and moving from hierarchy to community.

Shame

> Shame is about being in the world as an undesirable self, a self one does not wish to be. Shame is an involuntary response to an awareness that one has lost status and is devalued. (Gilbert & Andrews, 1998)

Shame is not an easy topic to discuss openly, and sometimes we may not be aware that is what we are feeling, but it can be an important factor in terms of behaviour while an organisation is managing financial difficulties. As mentioned previously the causes of financial difficulty can be many and varied. Whatever the cause shame can arise because people feel they missed something they should have spotted, that they didn't act fast enough, that they weren't forceful enough in pointing out an issue to others and so on.

Shame can manifest itself in four ways (Figure 15: Compass of Shame):

1. Withdrawal
2. Attacking self
3. Attacking others
4. Avoidance

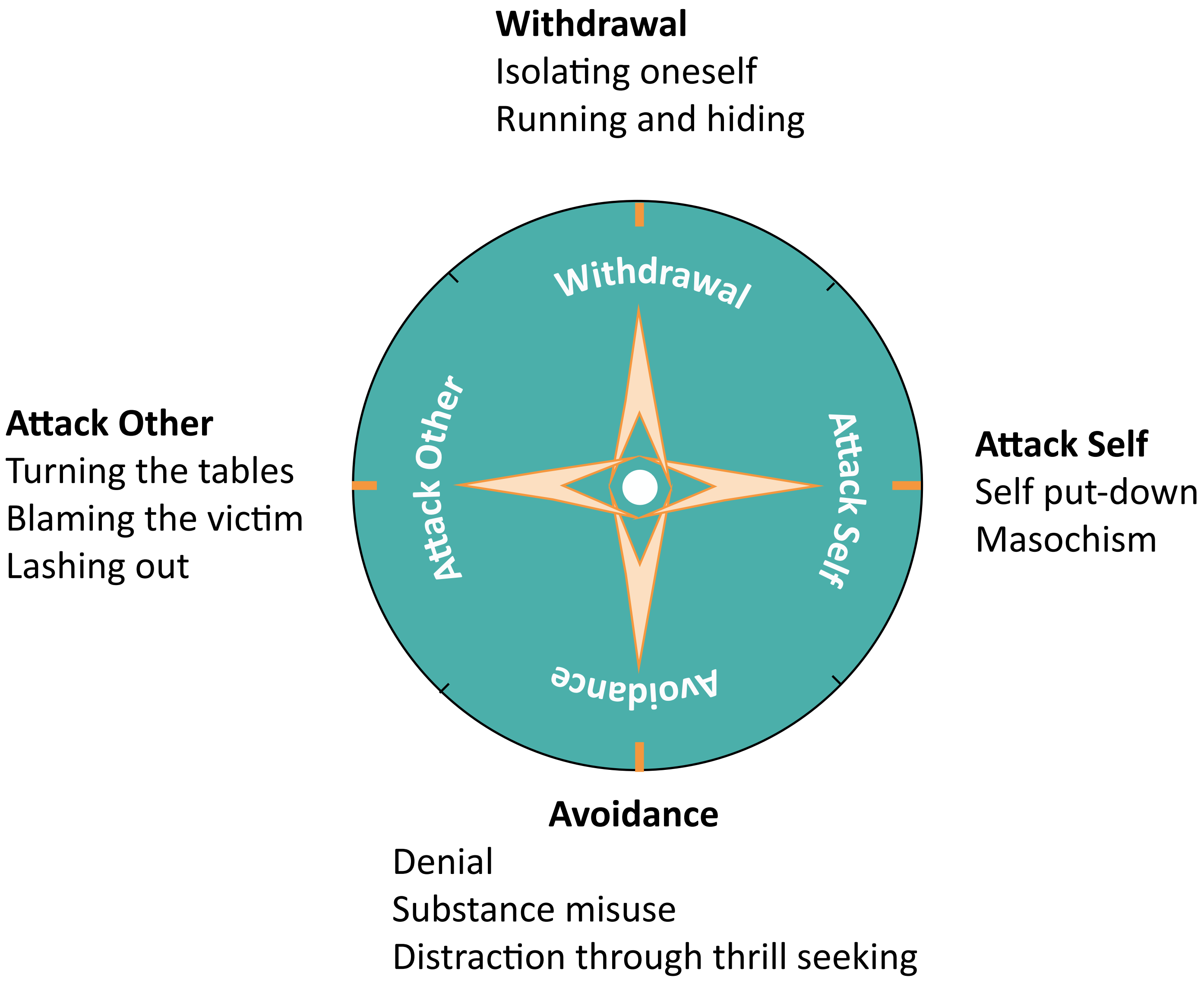


Figure 15 Compass of Shame (adapted from Nathanson, 1992)

The Compass of Shame can help you reflect on how the situation is impacting on you personally and on your team. Each of the four positions can be recognised through observable behaviours, e.g.:

- Withdrawal: likely to be quiet, hard to engage in conversation about the issue, possibly more physically absent
- Attack self: low confidence, negative self-talk, framing themselves negatively and downplaying their contribution
- Avoidance: not willing to recognise the issue, dismissing that there is an issue, increased reliance on substances to get through the day
- Attack other: potentially aggressive, often angry, loud opposition, not taking personal responsibility

Importantly, an individual or team does not have to have done something wrong to experience shame. Even if they haven't had any part in the issues that have caused the difficulty team members can feel shame at being part of what might be seen as a failing organisation, much as victims of crime often feel shame even though they were not the perpetrator.

An appropriately facilitated and safe environment can help people to express and move through their shame process. Blame is often a driver of shame so be aware of whether the situation has generated a blame culture. Several strategies can help with handling organisational shame:

- Facilitate honest conversations about shame
- Identify where shame might be taking hold
- Understand how constructive feedback can help reduce a sense of shame and manage expectations
- Identify where there might be shame fuelling rules in your organisation – 'you must always be right,' 'shift the blame,' 'don't show that you don't know…'

  Naming the shame helps to release the bind that shame has over people (Loader, 1998).

Challenges

- The psychological aspects of managing the more extreme financial difficulties can have a significant impact on the effectiveness of your change process
- Governing bodies and stakeholders may be more focused on outputs and the rational elements of the process
- Managing the emotional impact can be difficult if your organisation does not have a culture of talking openly about these issues
- There is a need to be aware of boundaries, there may be occasions where more specialist support is needed for you or your team members such as a coach or counsellor

Top tips

Ten tips for managing yourself

1. Reflexivity: be self-aware, understand where your strengths and passions lie
2. Accountability: develop mechanisms to give you feedback and review as you go. Make decisions and act on what has been agreed
3. Trustworthiness: demonstrate you can be trusted and that you trust others
4. Limitations: be aware of your limitations and bring in expertise to help where you or your team may have gaps
5. Openness: be open to your own change, this will involve reflection, deep listening and letting go of old learning/practices
6. Respect: respect yourself as well as others. Be aware when self-talk has become negative and destructive
7. Preparedness: try and avoid headless chicken syndrome and build time into your day to allow you to work on the important issues and prepare for meetings etc.
8. Flexibility: be able to adapt as the situation evolves. Give yourself permission to change direction
9. Welfare: take a break, have a work-life balance and make sure you have other interests outside of your work
10. Supported: build a peer support network, consider a coach or mentor. Don't feel you have to deal with the circumstances on your own

Ten tips for managing others during a difficult period:

1. Clarity: try not to over complicate the situation and be as clear as possible as to what is happening and what might be needed from them
2. Direction: have a sense of direction and demonstrate how it is being implemented
3. Communication: probably the most obvious but often the hardest to achieve. Create a climate in which communication is open and information is shared
4. Stewardship: good stewardship is rooted in accountability, responsibility and shows you are taking a holistic approach to the issues and the future of the organisation
5. Compassion: there may be times when the road gets a bit bumpy, you can set the tone by demonstrating kindness and understanding
6. Respect: develop a culture that is open and respectful of different perspectives
7. Teamwork: focus on building effective and cohesive teamworking
8. Feedback: effective and constructive feedback is vital during a process of managing financial difficulties, and is beneficial for the organisation in the long term
9. Honesty: honesty helps increase transparency as well as building loyalty and trust. It also helps establish it as a part of your organisational culture
10. Boundaries: be clear about boundaries and expectations

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Appendices

Appendix One: Your problem-solving style

Individuals differ in the way they interact with others and the way they gather and evaluate information for problem solving and decision-making. Four psychological functions identified by Carl Jung are related to this process: sensation, intuition, thinking, and feeling.

To discover your preferences please complete the Problem-Solving Diagnostic Questionnaire (part A) below and then check the scoring key that appears in Part B. There are no right or wrong answers; just read each item carefully, and then respond with your answer.

Part A: Questionnaire[1]

Indicate your responses to the following questionnaire. Please answer all 16 questions and tick the answer that comes closest to how you usually feel or act.

Question	Responses	Please tick one answer to each question
1. I am more careful about	a. People's feelings	
	b. Their rights	
2. I usually get along better with	a. Imaginative people	
	b. Realistic people	
3. It is a higher compliment to be called	a. A person of real feeling	
	b. A consistently reasonable person	

[1]adapted from people.tamu.edu a service of Texas A&M University

Question	Responses	Please tick one answer to each question
4. In doing something with many people, it appeals more to me	a. To do it in the accepted way	
	b. To invent a way of my own	
5. I get more annoyed at	a. Fancy theories	
	b. People who do not like theories	
6. It is higher praise to call someone	a. A person of vision	
	b. A person of common sense	
7. I more often let	a. My heart rule my head	
	b. My head rule my heart	
8. I think it is a worse fault	a. To show too much warmth	
	b. To be unsympathetic	
9. If I were a teacher, I would rather teach	a. Courses involving theory	
	b. Fact courses	

Which of the following words appeal to you more? Select one from each pair by ticking the box next to it				
Q.No		✓		✓
10.	a. compassion		b. foresight	
11.	a. justice		b. mercy	
12.	a. production		b. design	
13.	a. gentle		b. firm	
14.	a. uncritical		b. critical	
15.	a. literal		b. figurative	
16.	a. imaginative		b. matter-of-fact	

Part B. Scoring key to determine your preferred style

The following scales indicate the psychological functions related to each item. Use the point-value columns to arrive at your score for each function. For example, if you answered a to the first question, your 1a response in the feeling column is worth zero points when you add up the point-value column. Instructions for classifying your scores follow the scales.

Sensation	Score	Intuition	Score	Thinking	Score	Feeling	Score
2 b ___	1	2 a ___	2	1 b ___	1	1 a ___	0
4 a ___	1	4 b ___	1	3 b ___	2	3 a ___	1
5 a ___	1	5 b ___	1	7 b ___	1	7 a ___	1
6 b ___	1	6 a ___	0	8 a ___	0	8 b ___	1
9 b ___	2	9 a ___	2	10 b ___	2	10 a ___	1
12 a ___	1	12 b ___	0	11 a ___	2	11 b ___	1
15 a ___	1	15 b ___	1	13 b ___	1	13 a ___	1
16 b ___	2	16 a ___	0	14 b ___	0	14 a ___	1
Total score							
Maximum Point Value:	(10)		(7)		(9)		(7)

Classifying your total scores

- Write *intuition* if your intuition score is greater than your sensation score.
- Write *sensation* if your sensation score is greater than your intuition score.
- Write *feeling* if your feeling score is greater than your thinking score.
- Write *thinking* if your thinking score is greater than your feeling score.

My preferred problems solving styles are:

1. ______________________________

2. ______________________________

Four psychological functions identified by Carl Jung are related to this process: sensation, intuition, thinking, and feeling.

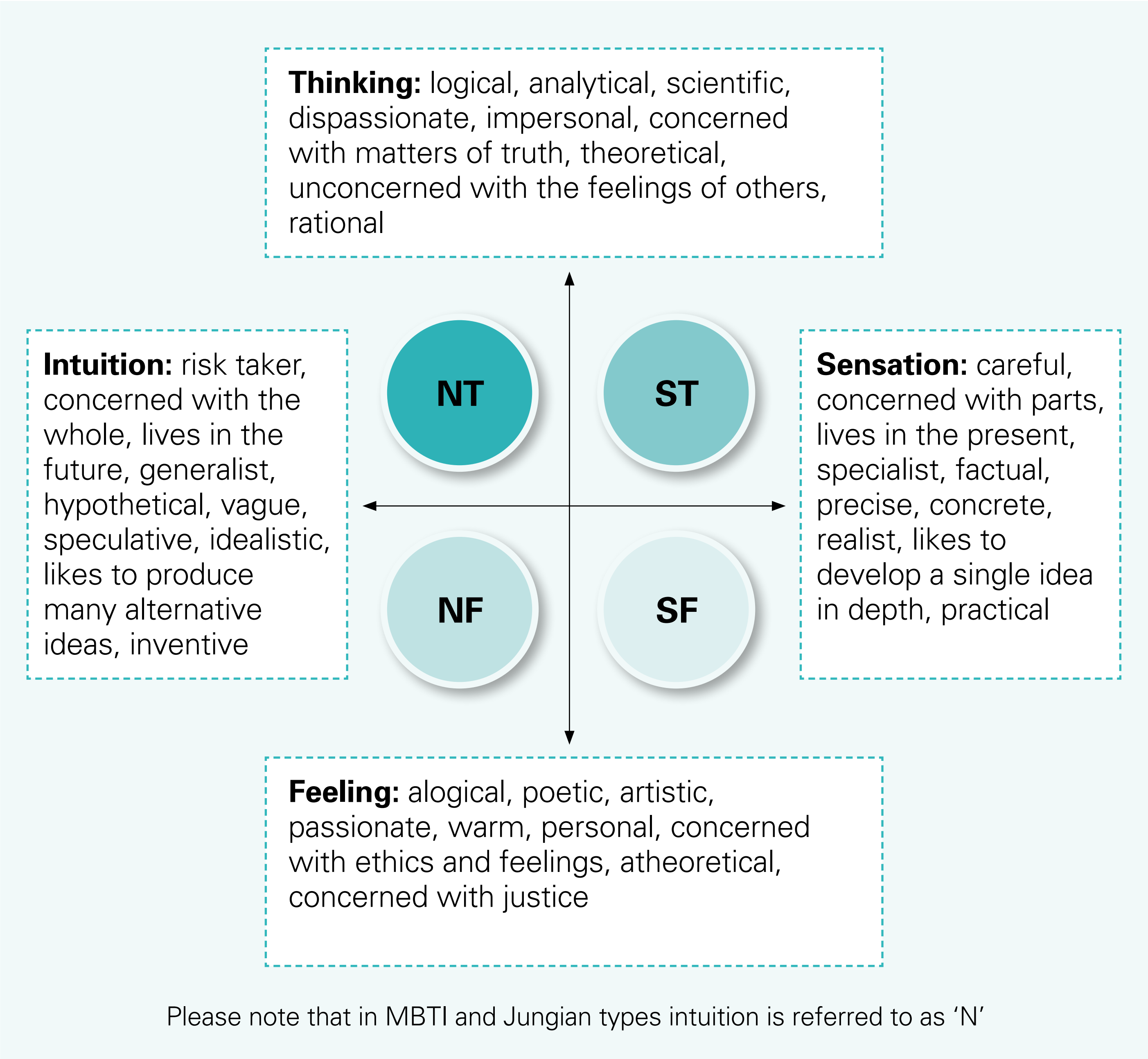

Figure 16 Problem solving types and characteristics

Problem solving approaches

According to Jung, gathering information and evaluating information are separate activities. People gather information either by *sensation* or *intuition* but not by both simultaneously. People using *sensation* would rather work with known facts and hard data and prefer routine and order while gathering information. People using *intuition* would rather look for possibilities than work with facts and prefer solving new problems and using abstract concepts.

Information evaluation involves making judgments about the information a person has gathered. People evaluate information by *thinking* or *feeling*. These represent the extremes in orientation. *Thinking* individuals base their judgments on impersonal analysis, using reason and logic rather than personal values or emotional aspects of the situation. *Feeling* individuals base their judgments more on personal feelings, such as harmony, and tend to make decisions that result in approval from others.

Personal style	Action tendencies
Sensation-thinking **ST**	• Emphasizes details, facts, certainty • Is a decisive, applied thinker • Focuses on short-term, realistic goals • Develops rules and regulations for judging performance • Enjoys the well-structured aspects of problem solving • Often seek single answers and prefer clear cut situations • Good at problem solving and finding solutions
Intuitive-thinking **NT**	• Shows concern for current, real-life human problems • Is a creative, progressive, perceptive thinker • Emphasizes detailed facts about people rather than tasks • Focuses on structuring organisations for the benefit of people • Enjoys looking at complex situations from different global perspectives • Attracted to abstract discussion • Does not like details or routine problems • Good at appreciating the problem

Personal style	Action tendencies
Sensation-feeling **SF**	• Prefers dealing with theoretical or technical problems • Is pragmatic, analytical, methodical, and conscientious • Focuses on possibilities using interpersonal analysis • Can consider several options and problems simultaneously • Enjoys the interpersonal interaction aspects of problem solving • Likes sensation of the immediate experience • Concerned with needs and aspirations of colleagues and teams • Good at implementation
Intuitive-feeling **NF**	• Avoids specifics • Is charismatic, participative, people oriented and helpful • Focuses on general views, broad themes, and feelings • Decentralizes decision making; develops few rules and regulations • Enjoys ambiguous situations and problems • Prefers to look to the future and all its possibilities • Thrives on dynamic complexity • Confident with sensing problems, appreciating data, accepting problems and evaluating outcomes

Figure 17 Problem solving types – action tendencies

Adapted from Cengage Learning 2013.

Reflective Questions

1. Look at your scores and the associated action tendencies. Do they chime with you?
2. Look at the Guidelines to Identifying Personality Styles. Compare yourself and others you know to the guidelines. Do you find a match between you and the individual style? What about your colleagues, partner, friends, or family?
3. How can you use this information to improve your communication?
4. How can you use this information to improve your problem-solving approach?

Appendix Two: Templates

Stakeholder engagement template

Stakeholder /level	1. Troubling indicators	2. Worrying but manageable	3. Potential crisis	4. Crisis	5. Serious risk of insolvency
e.g. Board/ governing body	Advocate	Consult	Dialogue	Collaborate	Collaborate

Internal communications template

Aims			
Key Messages			
Audience/s	Responsible	Channels	Processes
Timing – when and what			
Monitoring progress			

Appendix Three: The legal and regulatory framework

The purpose of this appendix is to provide an overview of the legal and regulatory contexts within which you may be acting. If you are facing a serious financial problem you will need to ensure that you have considered the requirements outlined below, have read more deeply where necessary and taken independent professional advice where appropriate.

There are three interdependent sources of requirements with which you must or should consider complying (Figure 12).

Legislation	Regulatory	Your own legal documents
• Companies Acts • Insolvency law • Charity law • Employment law	• Charity Commission • Pensions Regulator • Fundraising Regulator	• Governing documents such as Memorandum & Articles • Contracts • Funding agreements • Accreditation standards

Figure 12 Legal and regulatory requirements

A3.1 Director's duties in company law

If you are a director of a limited company, you owe seven statutory duties to your company under the Companies Act 2006. You must:

1. Act within your powers under the company's constitution;
2. Promote the success of your company;
3. Exercise independent judgement;
4. Exercise reasonable skill, care and diligence in your role;
5. Avoid conflicts of interest;
6. Not accept benefits from third parties; and
7. Declare any interests in proposed or existing transactions or arrangements with the company.

These seven statutory duties are supplemented by a wide range of other legal duties.

- Obligations regarding the preparation, approval and filing of your company's annual report and accounts
- Your duty of confidentiality to your company
- Your responsibility for ensuring that the company complies with its obligations relating to the health, safety and welfare at work of your workers under health and safety legislation
- Obligations under environmental and anti-corruption legislation

These obligations apply not only to members of your governing body but also to directors of any trading subsidiaries that you may have created. Trading subsidiary directors often include senior managers who rarely sit on the governing bodies.

A3.2 Director's duties and insolvency

A company is insolvent when:

- it cannot pay its debts when they fall due (the cash flow test) or
- its liabilities exceed its assets (the balance sheet test).

Note that a company will be insolvent if it meets either of these conditions; both conditions do not need to be met.

If your company is insolvent or approaching insolvency you need to be aware of the following obligations.

You must act in the best interests of creditors

Your general duty as a director to promote the success of the company is modified where a company is (or is on the verge of being) insolvent so you must act instead in the best interests of the company's creditors.

Possible personal liability for the company's debts

As a director you could be personally liable for sums that your insolvent company owes and/or prevented from being a company director in the future if you have not behaved properly in the run-up to the insolvency.

Wrongful trading

As a director, you can be ordered by the court to contribute personally towards your company's debts where you:

- knew or ought to have concluded that there was no reasonable prospect of the company avoiding insolvent liquidation or administration;
- continued to allow the company to trade after you knew or ought to have so concluded;
- do not take every step you ought to from that time to minimise the potential loss to creditors.

You do not need to have been dishonest to be liable for wrongful trading and you cannot avoid responsibility by resigning from the company when potential difficulties are spotted. This is a particularly challenging area for directors to navigate and proper advice should always be sought.

Fraudulent trading

This involves a degree of dishonesty on the part of the director as the offence requires an intention to defraud the company's creditors or some other fraudulent purpose. A director may be required to contribute to the company's assets available for distribution to creditors or may face criminal proceedings.

Misfeasance

A director can be guilty of misfeasance if they have misapplied or retained company assets or wrongly exercised authority. It does not necessarily involve moral blame. A director in breach may be ordered by the court to repay money or contribute to the company's assets available for distribution to creditors.

Disqualification as a director

You can be banned from being a company director for up to 15 years if you do not meet your legal responsibilities. The following are examples of unfit conduct that could led to disqualification.

- Allowing a company to continue trading when it can't pay its debts
- Not keeping proper company accounting records
- Not sending accounts and returns to Companies House
- Not paying tax owed by the company
- Using company money or assets for personal benefit

This penalty is of particular concern to those who hold or may in the future hold other directorships and/or are a member of a regulated profession such as lawyers, accountants and doctors.

Whilst it is rare for directors of charitable or social purpose organisations to be compelled to contribute to the debts of a company's creditors or disqualified as directors, it does happen and all those holding directorships need to understand their obligations.

If your organisation is an unincorporated association, members of the council of management or equivalent are personally liable for any and all debts of the organisation. Creditors will be able to pursue individual council members for unpaid debts.

A3.3 Trustee duties

In addition to ensuring that your appointment as a trustee is valid, a trustee has seven main duties.

1. Ensure that your charity is carrying out its purposes for the public benefit
2. Comply with your charity's governing document and the law
3. Act in your charity's best interests
4. Manage your charity's resources responsibly
5. Act with reasonable care and skill
6. Ensure your charity is accountable
7. Reduce the risk of liability

These duties apply to senior managers when they act as trustees.

A3.4 Trustee duties and insolvency

In its keystone guidance in this area (CC12) the Charity Commission advises trustees as follows.

Insolvency is a complex matter and the Commission strongly recommends that professional advice is taken as soon as the trustees are aware that the charity is facing an insolvency situation.

If your charity is facing a serious financial position that might progress to insolvency you must take steps to understand the financial position.

The Charity Commission recommends that trustees consider these questions

- Do we consider the risk of insolvency in our general risk assessment?
- When did we last carry out an insolvency risk assessment?
- Are our current assets plus investments less than our current liabilities?
- Are our total assets and foreseeable income less than our total liabilities and expected expenditure?
- Do we regularly have to spend our reserves because our incoming resources are not enough to meet all of the charity's commitments?
- Is there a need to provide additional security for long-term borrowings?
- Are we under pressure from creditors who are chasing overdue payments?
- Is our charity relying on using cash from restricted funds to finance general day to day needs because there are no unrestricted funds available?
- Is our charity reliant on bank loans with unclear renewal or extension options in order to continue its operations?
- Have we adequate financial reporting in place and do the trustees fully consider those reports?
- Have we breached our banking covenants or exceeded our borrowing facilities with no immediate means of restoring the situation?
- Does the charity have potential significant contingent liabilities?

If trustees, consider that their charity might not be a **going concern** they must

- Seek professional advice:
- Prepare a statement of affairs; and
- Identify endowment and restricted funds as these are, in effect, separate charities and are not available to meet unrestricted liabilities.

Going concern is a long standing concept in accounting that you may be familiar with from discussions with your auditors as directors/ trustees must confirm in their annual report that their accounts have been correctly prepared on a going concern basis.

Simply put, being a going concern means that you must have reasonable grounds for believing that you can continue to trade solvently, paying your debts as and when they fall due, for at least the next 12 months.

A charity may continue to trade if it is apparently insolvent but only if great care is taken to act in the best interests of creditors and to maintain a very close watch on the charity's financial performance to ensure that the trustees are not trading wrongfully.

Serious incident reporting for charities

The Charity Commission requires charities to report serious incidents

A **serious incident** is as an adverse event, whether actual or alleged, which results in or risks significant:

- Harm to your charity's beneficiaries, staff, volunteers or others who come into contact with your charity through its work (who are collectively referred to throughout this guidance as people who come into contact with your charity through its work);
- Loss of your charity's money or assets;
- Damage to your charity's property; and
- Harm to your charity's work or reputation.

If your charity is facing insolvency, this will be a serious incident that must be reported to the Commission. Guidance on how to do this is provided on the Commission's website but you may wish to ask your auditors or other advisors to assist you.

Your auditors may well be obliged to make a serious incident report to the Commission if you do not do so.

You should also be aware that an aggrieved member of staff or creditor or member of the public may make a serious complaint to the Commission about your charity. The Commission offers the following examples of grounds for such complaints of a charity:

- Not doing what it claims to do;
- Losing lots of money;
- Harming people;
- Being used for personal profit or gain; and
- Involved in illegal activity.

The Commission's investigative powers are considerable. The results of its investigations are published on its website.

A3.5 Pensions Regulator

The protection of pension assets and rights have become a major concern in the restructuring of troubled and insolvent companies. If an organisation with a defined benefit (DB) scheme, sometimes called a final salary scheme, enters an insolvency the Regulator has a range of powers including the power to appoint a pension trustee. If your organisation operates a DB scheme you must take expert advice on your responsibilities and options if you judge that there is a risk of insolvency.

If you operate a defined contribution scheme you will need to inform your scheme provider if you are required to do so by the terms of your scheme and/or you envisage having difficulties paying over your contributions and those of your staff at the appropriate times.

A3.6 Fundraising Regulator

The Fundraising Regulator regulates all fundraising in the UK excluding Scotland carried out by charitable institutions and third-party fundraisers. All regulated organisations and individuals must comply with The Code of Fundraising Practice. The Regulator can investigate complaints in the following situations.

- If a member of the public believes the fundraising organisation has made misleading or excessive requests for donations.
- If a member of the public believes a fundraising organisation has been disrespectful or treated them unfairly when seeking donations.
- If a fundraising organisation is not transparent or open about the relationship it has with a third party, for example, an agency working on its behalf.
- If a fundraising organisation has failed to respect a donor's wishes, for example, if a donor has asked to be contacted only in a certain way.
- If a fundraising organisation has not dealt appropriately with a complaint made by a member of the public about fundraising.

The Regulator publishes the results of its investigations on a quarterly basis on its website.

Whilst the Regulator's powers do not extend to investigating serious misconduct, it is not hard to imagine that financial difficulties might lead an aggrieved member of the public to make a complaint.

A3.7 Legal and regulatory resources

Charity Commission

The Charity Commission website has a full range of guidance for trustees, of particular importance in this context are:

The essential trustee: what you need to know, what you need to do (CC3)

An essential guide to the role of being a trustee

https://www.gov.uk/government/publications/the-essential-trustee-what-you-need-to-know-cc3

Managing a charity's finances: planning, managing difficulties and insolvency (CC12)

Essential guidance on managing financial difficulty. All trustees and senior staff involved in managing a charity in financial difficulty must read and understand this guidance.

https://www.gov.uk/government/publications/managing-financial-difficulties-insolvency-in-charities-cc12/managing-financial-difficulties-insolvency-in-charities

How to report a serious incident in your charity

Guidance on what constitutes a serious incident and how to report it to the Commission

https://www.gov.uk/guidance/how-to-report-a-serious-incident-in-your-charity

Other regulators

Companies House

https://www.gov.uk/government/organisations/companies-house

The Pensions Regulator

https://www.thepensionsregulator.gov.uk

Fundraising Regulator

https://www.fundraisingregulator.org.uk

Financial Conduct Authority – regulates registered societies (co-operative societies, community benefit societies and societies previously known as 'industrial and provident societies')

https://www.fca.org.uk/firms/cancel-dissolve-regulated-society

Resources for non-charitable companies

If your organisation is a company but not a charity the following resources provide guidance.

ICAEW: summary guidance and practical advice for directors from the Institute of Chartered Accountants for England and Wales

https://www.icaew.com/archive/technical/corporate-governance/roles/company-directors/directors-articles/directors-duties-in-the-zone-of-insolvency

Creditor Insolvency Guide: a guide to insolvency from the creditors' perspective prepared by R3, the trade association for the UK's insolvency, restructuring and advisory turnaround professionals. It includes descriptions of the various types of insolvency and of creditors' rights including those of former employees.

http://www.creditorinsolvencyguide.co.uk

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