Managing financial difficulties:

Part A: guidance for arts and cultural organisations

By Dawn Langley and Susan Royce
Commissioned by Arts Council England

Contents

Table of figures

Foreword

Foreword by Chief Operating Officer, Arts Council England

Dawn Langley and Susan Royce have produced two excellent guides for us (Business Planning Guidance and Managing Your Funds and Reserves), both of which are available on our website.

Towards the end of last year, we commissioned Dawn and Susan to produce a new toolkit to help organisations manage financial difficulty, drawing on their extensive knowledge, expertise and experience. We knew that many National Portfolio Organisations were struggling after 10 years of standstill funding, and that project funded organisations were also experiencing real challenges.

Little did we know what we would all be facing as we publish this new guide – thousands ill and dying, a global lockdown, economies on their knees. Alongside this, England's arts and cultural organisations and practitioners are doing what they can to continue to lift spirits and deliver quality activity and engagement online, and to sustain their organisations for when the impact of the pandemic eases.

Arts Council England is doing what it can – our number one priority is to support people and organisations through the Covid-19 crisis. Information about how we will use £160 million emergency funds (drawn from our regular funding programmes and reserves) can be found here.

We will not be able to help everyone – some organisations will close, some will change the way they operate, and some may even come out of this stronger than before. All face different challenges. We will help where we can, but we also urge all organisations to do what they can to protect themselves, their workers and volunteers and their extended communities. We will need a resilient arts and cultural sector when we come out of this – while we do not pretend that this new guide will solve everyone's problems, it will help and provide an opportunity to reflect on how we can manage during these difficult times, and improve and develop our practice to withstand shocks in future.

Please do read it – it may help you in your current situation, and it will help you to plan for your future.

Richard Russell
Chief Operating Officer

Section 1: Purpose

The purpose of this guidance is simple – to help you recognise and manage a range of financial challenges successfully, from worrying underperformance to crisis. To do this you will need to:

- See it coming
- Make decisions and act fast
- Be brave and be honest
- Work together as a team in difficult circumstances
- Manage your stakeholders well
- Acknowledge the stress and pressure you will experience and find ways to recognise and cope with the emotions of yourself and your colleagues

1.1 Who is this guidance for?

This guidance and accompanying toolkit are for anyone who is working for, leading or working with a social purpose arts or cultural organisation, which includes micro organisations, small and medium enterprises (SMEs) and large-scale organisations. It is therefore designed to cover a wide range of organisations with a breath-taking diversity of purpose and activity who are facing a spectrum of financial challenges. It is impossible to cover every eventuality so our intention is that you can adapt and interpret relevant aspects of the guidance to suit your own context.

Whilst the regulatory requirements which organisations must meet will vary slightly with your legal form and charitable status, the principles of what must be done, and the nature of the experience will be common to many.

While the most common constitutional form will be that of registered charity and Company Limited by Guarantee it is not assumed that this is the only model. The guidance therefore uses the terms ‘organisation’ and ‘business’, ‘board’ and ‘governing body’ interchangeably.

1.2 What has shaped this guidance?

In developing this guidance, we have drawn on four main sources of inspiration and evidence.

- What we have learnt working with clients in the sector and beyond to support them in managing financial difficulties.
- The wide range of available popular and academic literature on crisis management and turnaround for both the social purpose sector and organisations more generally; examples are included throughout the guidance and toolkit.
- Feedback from Arts Council England and other funders on their experiences of working with funded organisations in difficulty.
- Our experience of working in a sector that has faced significant challenges over the last ten years.

1.3 Context

We live in uncertain and challenging times in which the disruptive impact of technological change and globalisation are re-shaping our economies, societies and politics so it is unsurprising that some arts and cultural organisations are facing financial difficulty as they struggle to adapt.

- The confusing and messy nature of the world can be usefully understood through the acronym 'VUCA' which stands for volatile, uncertain, complex and ambiguous
- The business models of many cultural organisations are becoming increasingly complex and dependent on a range of uncertain and sometimes volatile income streams. More organisations of a modest financial size are operating multiple business models with very limited resources in terms of finance, capacity and capability.
- Many organisations have spoken of an increased demand for their services in response to reductions in public funding and to public sector reforms such as Universal Credit. Challenges are also being posed by the loss of arts provision within schools. In some cases, this is driving the instrumentalization of the arts & culture.
- As a result of reductions in public funding, statutory funders have fewer resources, in terms of both money and time, with which to support organisations in trouble.
- In the aftermath of several well publicised charity crises such as the collapse of Kids Company in 2015, there has been an increase in the expectations of and pressures upon charity trustees. The Charity Commission has clearly moved to emphasise its role as regulator rather than enabler and a new Fundraising Regulator was established in 2016.

1.4 Who has produced this guidance?

The guidance has been produced by Dr. Dawn Langley (Alchemy Research & Consultancy) and Susan Royce who are both consultants in the arts and cultural sector. Dawn has spent the last ten years researching organisational learning and change, her PhD thesis explored how arts and cultural organisations respond to crises. Susan is a chartered accountant with more than thirty years' experience in professional practice. From 1996 to 2000 she was a licensed insolvency practitioner.

The guidance was commissioned by Arts Council England and is designed to provide independent advice and support.

1.5 How does the guidance and toolkit work?

The guidance is broken into five sections.

Section 1: Purpose

Section 2: What you need to consider
This section sets includes consideration of stakeholder management during financial crisis as well as a short section on the importance of fair process. A brief overview of the legal context is given; additional material is contained in Appendix One.

Section 3: Understanding and managing the challenges
This section offers practical guidance on taking stock of your position, managing your finances, decision making and organisational development.

Section 4: Monitoring progress
You have dealt with the immediate crisis; this section offers advice on how to monitor your progress and take corrective action if necessary.

Section 5: Special circumstances
This section offers advice in relation to specific issues you may need to consider such as managing collections and restricted funds.

The **toolkit** includes more detailed practical tools, tips and links to useful resources as well as highlighting how the process of managing financial difficulty and crisis connects with wider issues of organisational and behavioural change.

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: What you need to consider

2.1 Legal responsibilities

Key decision makers within organisations have a wide range of legal responsibilities arising from their roles as members of the governing body and as employers. These responsibilities are both brought into sharp focus and somewhat modified if an organisation is or may be facing insolvency.

- If your organisation is insolvent or approaching insolvency, you must act in the best interests of creditors.
- If you fail to act as you should, it is possible that you may be held personally liable for the debts of your organisation. Insurance, such as directors' and officers' liability insurance, does not cover all such costs.
- The law in this area is complex and the risks are high; you should take professional advice if you face serious financial problems that you are not confident you can solve.
- Document your decisions and the reasons for them. It will be your best defence in the event of a subsequent challenge to your actions.

Further guidance is given in Part B: Appendix Three.

2.2 Funder expectations including accreditation bodies

You need to know what your funding agreements say about financial management, financial crises and underperformance or non-performance. You should be clear about what you are obliged to provide by way of information and deliverables, how you are required to act and under what conditions a funder could suspend payments, reclaim previous payments and/or terminate your funding agreement.

If your funding is restricted ensure that you understand the purposes for which the funds were granted and are only using them for those purposes and not, for example, to underpin unrestricted trading losses. This consideration also applies to restricted funds used to buy assets such as building and equipment.

If you have an endowment, you will need to understand its uses and the limitations on its use.

Remember to check the conditions attached to any accreditation or similar scheme from which you benefit such as the UK Museum Accreditation Scheme, Archive Service Accreditation and the Government Indemnity Scheme.

2.3 Fair process/trust

Fair process has a formal and psychological importance. It can make the difference between bringing people together and maximising your capabilities, or making a team feel ignored and undervalued. At its worst, the lack of a fair process can add to reputational damage and impact on your likelihood of success while managing financial difficulties. People will be prepared to go along with a decision, even if they disagree with it, if they believe the process to have been fair.

Fair process has three elements (Kim & Mauborgne, 2003):

1. Explanation: helping everyone involved understand how and why decisions are being made and any changes that are proposed.
2. Engagement: inviting others to participate and building on your collective wisdom. Building commitment to the process and not being afraid to tackle the issues as a group.
3. Expectation clarity: being clear about changes to the way things are done. Outlining new responsibilities, targets and performance requirements.

It can be helpful to think about three aspects of the experience of fairness (Figure One):

Experiencing fairness through substance	Experiencing fairness through process	Experiencing fairness through outcomes
• Being allowed to act • Analysing any mistakes • Recognising who might have been responsible • Identifying the core issue/s	• Being heard • Being allowed to speak • Being treated with dignity and respect • Having the ability to influence the process • Recognising any biases	• Ensuring the outcome is consistent with prevailing norms • Ensuring the outcome is equitable

Figure 1: Aspects of the experience of fairness

In committing to fair process, you are not guaranteeing consensus or that everyone will get what they want from the situation. It does, however, open the process to everyone's ideas and it is the relative value of those ideas that should form the basis of any decision making.

This may sound obvious and simple, but in practice many organisations are failing to achieve it, particularly at a time when they are facing challenges or a crisis. It can be the case that when problems arise things are kept contained within a few senior people rather than engaging or explaining them across the organisation. This increases the possibility that the process will be regarded as unfair at some point.

2.4 Key practical considerations

- Ensure that all senior staff and trustees/directors understand their legal responsibilities and the legal documents that constrain their behaviour.
- There is no such thing as 'technical insolvency'. If you are insolvent, you must put the interests of creditors such as employees, holders of advance tickets and companies whose box office takings you are holding, first.
- Ensuring that your process is fair through helping everyone to understand the situation, inviting them to participate and being clear about the planned changes to the way that things are done is critical to successful management of financial difficulties.
- Tackle the problem you are facing: ensure you have up to date information, take informed decisions and implement them swiftly.
- Document all key decisions together with the rationale for them: it will be your best defence against a subsequent challenge.
- If your organisation is unincorporated, trustee members of your council of management and possibly staff (if they have signed things like photocopier agreements) will be personally liable for the debts of your organisation; creditors will be able to sue them personally for unpaid sums.
- If your organisation is a registered charity you must follow the Charity Commission's guidance including taking professional advice where appropriate and making a serious incident report if necessary.
- If you operate a final salary pension scheme you must consider involving the pension scheme trustees and the Pensions Regulator. Consider taking professional advice if insolvency appears possible.

Section 3: Understanding and managing your challenges

3.1 Taking stock

Financial problems can emerge slowly over a long period of time or they erupt apparently from nowhere. In either case it is vital to understand the severity of the crisis you are facing so you can calibrate your response. To help you do this we have developed a framework that breaks down the spectrum of financial difficulty from ‘we are having trouble making budget this year’ through to ‘we are not sure we can pay the wages next month’.

The financial difficulty framework (Figure Two) has five levels with the least difficult on the left and the most threatening on the right.

For each of these levels we have identified some common characteristics and associated risks (Figure Three). These levels are not, in practice, discrete but form a continuum. It is also possible to move very quickly from the less to more severe situation as further information becomes available or circumstances change.

If your organisation has also faced financial challenges in the recent past it is important to consider whether the underlying causes of the difficulty might be linked or even the same. Recurring low level crises may well require a more robust response than an isolated episode of a similar severity.

As the situation becomes more serious:

- More people (inside and outside the organisation) need to be engaged in the process of addressing the situation;
- Your organisation will begin to lose its autonomy as legal requirements and funder requirements/expectations increasingly shape the possible actions, ending up in insolvency with complete loss of control; and
- The likelihood of public awareness of the crisis increases

The toolkit includes a checklist of indicators of financial difficulty to help you diagnose the severity of the crisis you are facing.

Figure 2 Five levels of financial difficulty

Level	Characteristics	Risk
Level 1 Troubling indicators	Weak balance sheet Unexplained and/or unexpected financial underperformance High staff turnover in the finance team	Possibility of underlying, unidentified issues that will impact on financial viability
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	Short term underperformance needs managing. If issue not tackled the impact may increase and spread to other areas.
Level 3 Potential crisis	Projections suggest that, unless action is taken, a crisis is likely to materialise	If prompt, appropriate action not taken a crisis will result
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	Financial viability undermined Solvency issues
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	Insolvency

Increasing risk and need for engagement. Declining autonomy

Figure 3 Characteristics of different levels of financial difficulty and associated risks

The following flowchart (Navigating financial difficulty – Figure Four) incorporates the five levels of financial difficulty and offers a way of visualising the steps in the process of managing financial difficulty within your organisation.

- Each diamond box is a question with a yes or no answer such as 'Is the extent of the financial difficulty known?'.
- Your answer to the question determines the next step
- Actions that you need to take are summarised in the rectangular boxes. This guidance and the toolkit provide support for each of these steps.

Reality is not nearly as clear or linear as our flowchart, but it does offer a map highlighting the key steps and possible outcomes.

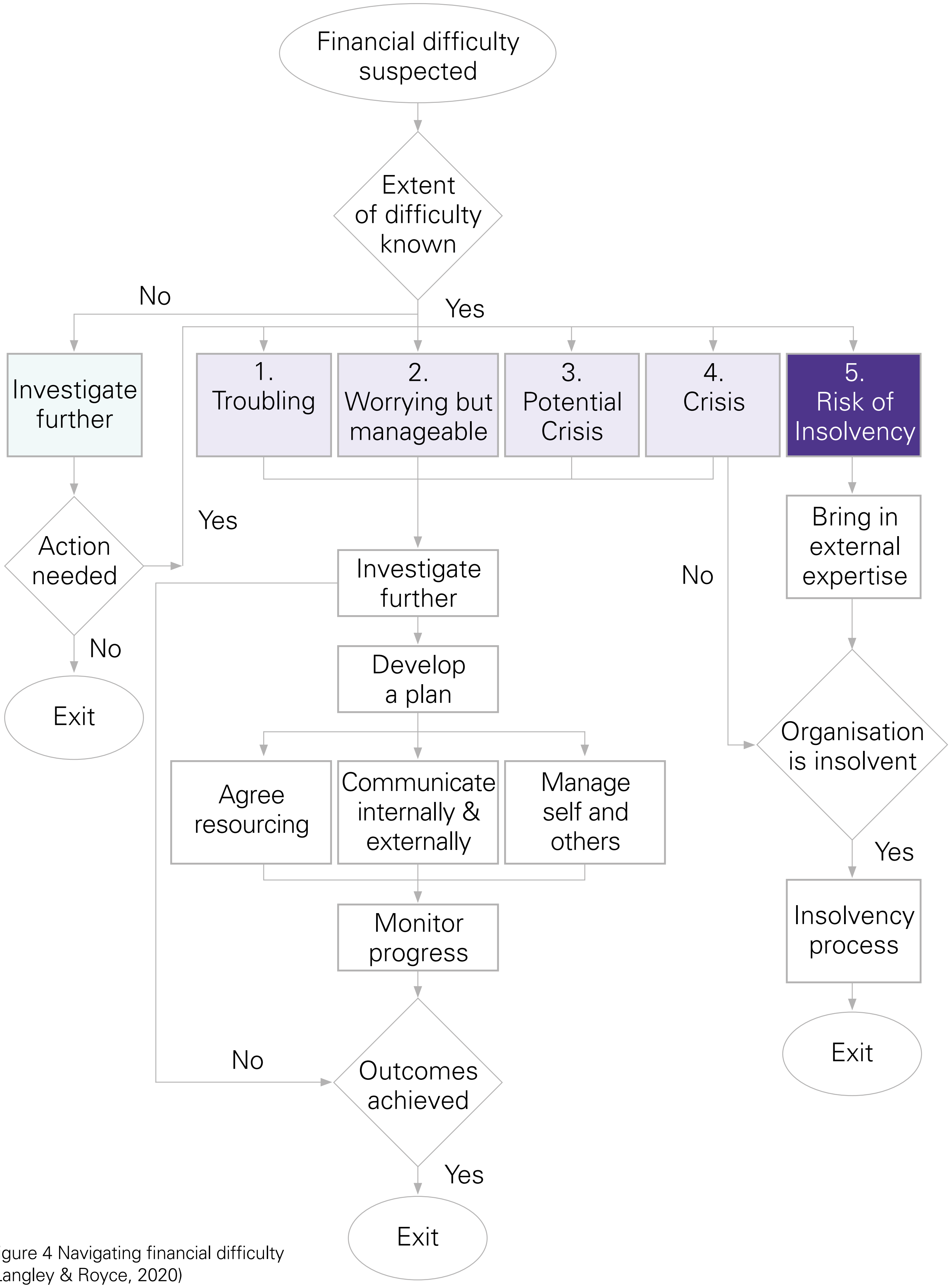

Figure 4 Navigating financial difficulty
(Langley & Royce, 2020)

The scale and nature of the actions that you need to take will depend upon the severity of the crisis that you face. There are a range of common responses to each level of challenge (Figure Five).

Level	Common responses
Level 1 Troubling indicators	Ask questions Investigate Evaluate possible threat
Level 2 Worrying but manageable	Plan to address issues Tactical approach Focus on specific areas of underperformance Consider implications for subsequent years
Level 3 Potential crisis	Strategic response – review all areas of your business and business model Inform stakeholders of situation, consulting as necessary Cut costs to gain time if possible Re-phase or re-model activity and programmes to reduce financial risk and free up capacity to manage the situation Mothball high risk/high net cost activities Develop a new plan and implement
Level 4 Crisis	Your whole organisation now needs to focus on managing the crisis Managing the crisis is everyone's biggest priority Active stakeholder management Active PR management Likely to need to seek professional advice Possible Serious Incident Report to the Charity Commission Discussions with your auditors regarding going concern Develop a new plan and implement
Level 5 Serious risk of insolvency	Seek advice from an insolvency practitioner immediately Consider impact of overriding duty to creditors and implement necessary changes Freeze all non-essential expenditure and new contracts

Figure 5: Common responses to financial difficulty

The guidance that follows is largely focused on levels 2 – 4; level 1 difficulties should be manageable using your usual control mechanisms and under level 5 you will need to follow the advice of your insolvency practitioner.

3.2 Taking control of your finances

To be able to take control of your finances you need fit for purpose finance systems and reports that everyone in the senior management team and board can understand and use as a sound basis for decision making.

Key question	Examples
Financial systems: are our financial systems fit for purpose in this context?	Can we manage a very tight cashflow and predict inflows and outflows with enough precision? Can we control expenditure and commitments tightly enough?
Financial reports: are our financial reports relevant, accurate and timely in this context?	What financial information do we need to monitor actively? Aged debtors, creditors and commitments may become more important than previously. Cashflow is likely to be a key focus and you may need to move to weekly or daily cashflow forecasting. How accurate do our key figures need to be? You may be able to accept estimates in some areas but need very accurate figures in others. It helps to choose where to focus your efforts.
Understanding: does everyone on the senior management team and board understand our finances?	Can everyone read our management accounts? Does everyone understand what our financial projections are telling us?

Figure 6: Key questions in taking control of your finances

Your answers to the above questions (Figure Six) and the changes that you need to make will vary with the level of crisis that you face; each aspect is discussed below in more detail.

Financial systems

In deciding whether your systems are fit for purpose you need to consider both the robustness of your current systems and the severity of the crisis.

Changes you might need to make cover a wide range of actions (Figure Seven).

Financial position	Possible financial system improvements
Troubling	Require compliance with existing PO system Introduce a more accurate cashflow forecasting system Introduce monthly finance meetings for all budget holders to consider performance, past and present
Worrying but manageable	Introduce monthly Finance Committee meetings for the governing body Move to weekly cashflow forecasting Emphasise the need for flexibility and collective responsibility – silo thinking will get in the way of managing the crisis
Potential crisis	Reduce authorisation limits for budget holders and/or reduce number of budget holders Restrict use of company credit cards Institute a freeze and review of all non-essential/avoidable expenditure e.g. capital expenditure, overtime
Crisis	Centralise all spending decisions – Finance Director to provide authorisation for all expenditure All new contracts require Board authorisation Weekly reporting of key information to the Board or Finance committee
Risk of insolvency	Cancellation of most/all company credit cards Daily reporting of key figures such as cashflow to the Board/ Finance Committee Prohibition on entering into any new contracts

Figure 7 Improving your ability to manage your finances

Financial reporting

It is vital that you have the right information on which to base your decision making and monitor your progress. This should involve all three main financial reports: income and expenditure account, balance sheet and cashflow forecast.

Focus on reporting against your projections or forecasts not against a budget which has become irrelevant; past performance cannot be changed and is much less important than future performance.

Concentrate on ensuring that you can report quickly and accurately on your cashflow and on key areas of risk such as ticket income or areas of cost where you have struggled to contain expenditure.

Understanding your finances

It is essential that everyone who is involved in financial planning, monitoring and decision making understands the financial information that they are generating, reviewing and making decisions on both to ensure that good choices are made and that they can demonstrate that they are exercising reasonable skill, care and diligence.

If anyone does not understand the financial information the position needs to be rectified quickly.

If you need to invest cash to make the necessary changes, for example by bringing in additional financial team capacity and/or capability, you should do so if you can. You may need to re-allocate resources to do so. Financial difficulties of extended duration and/or considerable severity place a great strain on finance staff in terms of both workload and responsibility but without appropriate levels of financial expertise and capacity your ability to manage the situation will be seriously impaired.

3.3 Developing a new plan

If you are experiencing financial challenges you will need either to modify your existing business plan (if the financial problems are not too serious) or to develop a new plan if you are facing a possible crisis or insolvency.

The toolkit includes guidance on developing a new business or transition plan in one month adapting the framework we developed in our earlier guidance on business planning also commissioned by Arts Council England (Langley & Royce, 2016).

A good turnaround plan, that is developed in response to a serious crisis, must meet the following tests.

- Is it grounded in an honest assessment of the underlying problems that have led to the crisis and in a realistic appraisal of the organisation's operating context? (The toolkit includes a template for an after-action review to help you with this.)
- Does it focus on the critical areas of change without trying to fix everything at once? In a turnaround, less is definitely more. (See Figure Seven)
- Has the plan been developed with staff as far as practicable? Have the core elements of the plan been well communicated to staff and volunteers? (See 2.3)

- Are the objectives and financial projections realistic given your difficult starting point?
- Are your board and senior team deeply committed to the plan and willing to take difficult decisions and actions? (See 3.4)
- Can you easily measure your success? (See 4.1)
- Have you identified the key risks and considered how you might mitigate or manage these? This will help you if you need to take corrective action – see 4.2.
- Does the plan have the support of your key stakeholders? (See 3.5)

In developing your turnaround plan you should ensure that you include a number of key ingredients and have considered the obvious strategic responses (Figure Eight).

Turnaround plan key ingredients	Generic turnaround strategies
1. Crisis stabilisation	Taking control Cash management Asset reduction Short term financing – overdraft, rescheduling of grant payments First step cost reduction
2. Strengthen leadership	Review of leadership and senior management capacity and capability Governance review
3. Stakeholder focus	Communications and engagement
4. Strategic focus	Redefine core business – doing less, better? Restructuring staff team Focus on customer experience Approach to partnership and collaboration
5. Organisational change	Structural changes Improved communications Learning and development New terms and conditions of employment

Turnaround plan key ingredients	Generic turnaround strategies
6. Critical process improvements	Stronger sales and marketing Cost reduction Quality improvement Better business systems (more automation, less paper, better information)
7. Financial restructuring	Rescheduling grant payments and obligations Renegotiating payment terms with suppliers Asset reduction

Figure 8: Generic turnaround strategies adapted from Slatter et al (2006)

Plans developed in this context will be written at speed and in challenging circumstances. They should be working documents that are regularly referred to and updated as you learn through implementing the plan.

3.4 Guidance for governing bodies

Overview

In situations of serious financial difficulty, governing bodies of whatever legal form often have the unenviable task of seeking to lead the exploration and solving of a complex and often confusing problem whilst being volunteers with limited time and understanding of the organisation. They must do so whilst ensuring that they meet the governance standards established by law and regulation.

To fulfil their roles successfully, members of governing bodies need to

- Understand their legal responsibilities and, if appropriate, follow the Charity Commission's guidance
- Commit to understanding the problem they are trying to solve
- Work collaboratively, creatively and honestly with each other and the organisation's senior management
- Acknowledge the challenges of their position
- Accept that difficult decisions will need to be taken quickly and that compromise will be essential
- Document their decision making and rationale

A checklist for board decision making is given in the accompanying toolkit.

Information asymmetry

It is acknowledged that governing bodies and executive staff generally do not have access to the same information at the same time. The governing body is reliant on its executives to provide relevant, accurate and timely information. This presents some challenges in terms of the executives determining what information should be relayed and when. In some cases, there may be a temptation to downplay any issues or not deem them serious enough to be reported. Equally, not all governing bodies will act on troublesome information.

Governing bodies may respond well to a crisis that develops suddenly, they are less proactive if the issue has developed over time or is external in nature. During challenging times governing body members need to:

- Increase their time commitment, in some cases significantly
- Know the right questions to ask
- Know how to assess the information they are being proved by their executives
- Be prepared to deal with conflict
- Have the emotional resilience needed to handle the situation
- Mobilize for change
- Balance the need for strategic governance and 'hands on' engagement

Some board members may find the potential conflict between their professional standing and duty as a governing body member hard to reconcile (particularly those from accountancy or legal professions) and it is not uncommon to see a turnover in members during or after a crisis.

3.5 Stakeholder engagement and communications

Regardless of the level of your financial difficulty effective communication will be an essential element. The nature and extent of that communication will differ, but it will be part of helping you deliver the other aspects of the process such as resetting budgets, negotiating internally and externally, achieving fair process and managing self and others. The level of communication and subsequent engagement will depend on both the severity of the financial issues and the proximity of the stakeholder. In some cases, it may stay a purely internal matter that is quickly resolved and needs minimal communication. In other cases, an extensive communication strategy will be needed with dedicated resources and wide engagement beyond your organisation. Creating the right level of stakeholder engagement involves matching the right communication format to the right stakeholder group (Figure Nine & 10).

Monitor	Message	Advocate	Consult	Dialogue	Collaborate
Pay attention to your stakeholders	Create targeted messages for specific stakeholders. You won't generally require a response	Participate in activities intended to enlist support for a course of action	Solicit explicit input or feedback on a course of action or plan	Initiate or participate in two-way dialogue focused on mutual learning and solutions. This can include co-creation of new ideas	Shared work on common aims of your organisation and your core stakeholders. Can include both co-creation and co-implementation of new ideas

Figure 9: Stakeholder engagement continuum (Adapted from Lemos, BSR, BSR.org)

	1. Troubling indicators	**2. Worrying but manageable**	**3. Potential crisis**	**4. Crisis**	**5. Serious risk of insolvency**
Board / governing body	Advocate	Consult	Dialogue	Collaborate	Collaborate
Executive team	Consult	Consult	Dialogue	Collaborate	Collaborate
Wider team	Message	Advocate	Consult	Dialogue	Collaborate
Funders – core	Monitor	Message	Dialogue	Collaborate	Collaborate
Funders – project	Monitor	Consult	Message	Consult	Consult
Patrons/ donors	Monitor	Message	Advocate	Advocate	Dialogue
Partners	Monitor	Advocate	Consult	Dialogue	Dialogue
Beneficiaries	Monitor	Message	Advocate	Consult	Dialogue
General public	Monitor	Monitor	Advocate	Consult	Consult

Figure 10 Stakeholder engagement approaches by level of financial difficulty

This gives an indicative approach and will depend on the nature of your stakeholders and the issues you are dealing with (see the toolkit for additional resources to support the development of a communications plan). What this is intended to highlight is that it is important to take a proactive approach rather than have to firefight as issues arise.

Section 4: Monitoring your progress

4.1 Monitoring and evaluation

A strategic approach to monitoring and evaluation will be an important part of successfully managing your financial difficulties. Monitoring and evaluation can contribute to the process in three ways:

- Decision making – contributing to your decision making and ensuring you are undertaking evidence informed, timely decisions about current and future activity
- Learning and development – ensuring you learn about what is working and what is not, allowing you to build on previous activity and assessing how well you are doing and what you can do better
- Accountability – ensuring you can demonstrate effective performance to all your stakeholders

The process can be as complex or as simple as required and involves four stages; thinking, planning, collecting and sharing (Figure 11).

1. Thinking: clearly defining the purpose and scope of the evaluation. This emphasises clarity about what is being evaluated
2. Planning: creating the structures and processes needed to undertake the evaluation. This emphasizes the need to invest resources in the process
3. Collecting: ensuring the collection of high-quality data. This emphasises collecting the right data at the right time
4. Sharing: creating clear findings through appropriate interpretation methods and that these are disseminated. This emphasises understanding the likely evaluation audiences and acting on your findings

In some cases, your process may need to take account of conditions set by your funders if they have contributed support to your process. Relevant and timely reporting on progress will also feed into your management processes and appropriate oversight by your governing body.

Analysing evaluation data on a timely basis is often a challenge but it is vital when you are managing financial difficulties. It is likely you will need relatively short-term feedback loops to let you know whether things are progressing as anticipated, which means your monitoring needs to be in-depth enough to gather the necessary data but straightforward enough to be implemented. Developing an evaluation dashboard that displays progress visually can be a particularly effective tool for ongoing monitoring and building an effective dataset.

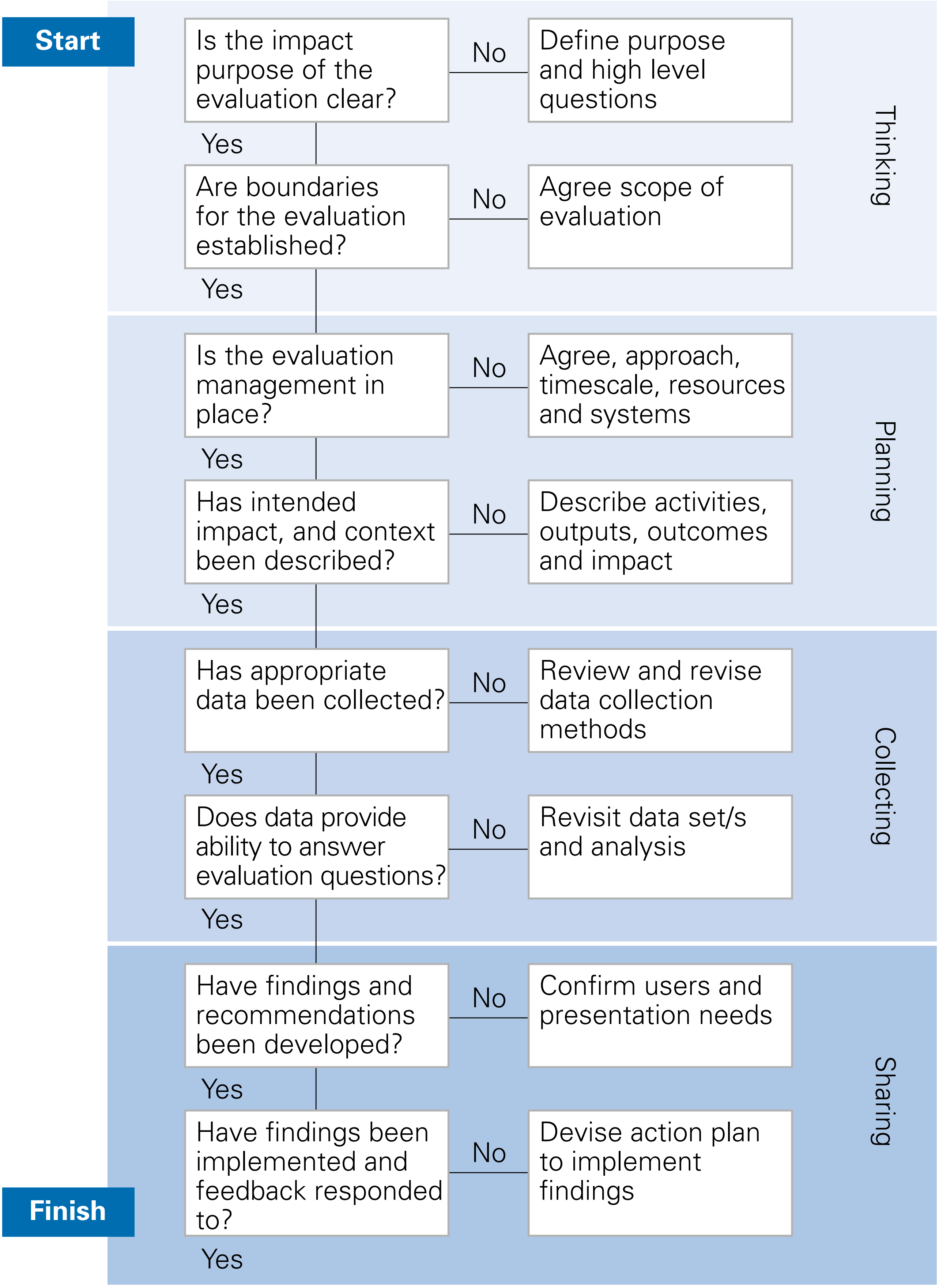

Figure 11: Evaluation and monitoring process (Alchemy Research & Consultancy, 2019)

4.2 Taking corrective action

Hopefully, your new plans will be delivered as envisaged but they may not. Such plans are often developed at speed, on incomplete information and in a rapidly changing context so it should not be surprising that corrective action is often needed. Such action should not be seen as a sign of failure but as a common element in the process of managing your way out of financial difficulty.

What should you do if you need to take corrective action?

- Take the time to consider what the underperformance is telling you. Are you still in similar scale of difficulty or is the crisis deepening and you need to take more radical action and possibly re-think your entire approach? How does your underperformance change your views of the underlying problems you are trying to solve?
- Prepare for the possibility of taking corrective action when you put your plan together. As part of your risk assessment, think about the areas of greatest risk and consider what you could do, in general terms, if your assumptions proved to be too optimistic. These can form an outline Plan B, so you are not starting from scratch again.
- If you need to take significant corrective action take a slightly more pessimistic view than you did in your first plan as the returns from further cuts and changes in the financial model will fall fast.
- Avoid ‘salami-slicing’ or repeated cuts in costs and staffing if you can. Disillusionment and a lack of confidence will soon build destroying or severely damaging your chances of making the changes you want.
- Be willing to be radical the second time around if you need to be.

Section 5: Special circumstances

5.1 Museum and gallery collections

The position of any organisation in severe financial difficulty that also holds a collection is a difficult one. The governing body will face conflicting demands that are not easily reconciled.

The following comments are offered as a very brief overview; any organisation in such a position must take advantage of the specialist guidance and advice available from the Arts Council and the Museums Association.

Ethical considerations

The governing body will need to consider how it can continue to meet its ethical obligations

- To maintain collections for current and future generations;
- To care for collections with transparency and competency to generate knowledge and engage the public with collections; and
- To treat museum collections as cultural, scientific or historic assets, not financial assets if they have insufficient financial resources.

If the museum wishes to dispose of part of its collection to realise funds or reduce its costs a rigorous process must be followed if the museum is to comply with its ethical obligations (and retain its accreditation if the museum is accredited).

Legal issues

Museum collections may have substantial financial value and may, depending upon their legal status, be available to meet the claims of the museum's creditors. In a severe financial crisis, a museum's ethical and legal obligations may be in conflict.

Questions of the legal status of artefacts can be complex and hard to determine quickly. Assets may form an endowment and/or their use may have been restricted by those who donated them or funded their purchase. Ownership of assets acquired many years ago may be unclear. Some items may be on long-term loan and the loan documentation may not meet current standards.

Practical challenges

- The resolution of any serious financial difficulties is likely to take longer than would be the case for an organisation without a collection. This extended timeframe may well have cost implications.
- If some or all the museum's collection are to find a new home, third parties will need to be identified, negotiated and worked with over a period of months. This will be challenging at a time of very limited resources.
- If the museum holds a collection which is of interest beyond its immediate locality both press interest and professional scrutiny are

likely. This attention will need to be managed.

- A successful and relatively speedy resolution of the museum's difficulties will depend, to a significant extent, on the quality of the museum's collection records. If they are not in a good state, remedial work may be a necessary element in the resolution of the crisis.

Any museum facing serious financial difficulties should consult the Museums Association's guidance including that on museums facing closure and on disposals including advice on financially motivated disposals (see Appendix Two).

5.2 Restricted funds

Restricted funds are not reserves. They are funds provided by donors for specific purposes and only for those specific purposes. They may be spent on activities or invested in fixed assets, which are then restricted fund assets.

It therefore follows that restricted funds are not available to meet the claims of creditors in an insolvency.

Restricted funds should never be in deficit. It is a breach of trust to use restricted funds for purposes other than those for which they were given by the donor.

- Your statutory accounts must clearly disclose your restricted funds and the purpose(s) for which they were given.
- Your management accounts should differentiate between restricted and unrestricted funds in normal times, but it is essential that they do so if you are in a financial crisis.
- You should also ensure that all decision makers understand if restricted funds are being used to fund unrestricted activities and to what extent.
- If you are no longer able to complete the activity funded by restricted funding, you must enter negotiations with the funder and be willing to hand the funds back if that is possible.
- If the funds are invested in assets, these assets cannot be sold to pay creditors and the funder will have considerable influence over their future use. Often restricted capital funding is accompanied by a charge on the asset and/or undertaking and restrictions on the future use of the building.

For further help look at guidance on managing your funds and reserves commissioned by Arts Council England (Royce, 2019).

5.3 Third party funds

As their name suggests these funds do not belong to your organisation. Examples include

- Tickets sales collected by your organisation as agent.
- Monies owing to promoters.
- Funds deducted from staff salaries such as PAYE, NI, pension contributions and student loans.
- Monies being held for associates or artists.

Funds deducted from staff salaries are also subject to special statutory provisions.

None of these sums form part of the pool of general assets that would be available to creditors on an insolvency.

If you are in a serious crisis and experiencing cashflow difficulties, you should:

- Ensure that all third parties funds are clearly identified in your financial reports and in your cashflow forecast; and
- Consider placing them in a separate bank account which is not subject to set off by your Bank. The owners of these funds may require this as a condition of continuing to trade with you.

5.4 Advance ticket sales

Advance ticket sales are likely to be a special class of third-party funds if you are liable to repay them in the event that the performance people have booked for is cancelled. Advance sales can be a material source of working capital funding for venues but if you are in a serious financial position you must consider the actions identified above.

Key decision makers within your organisation must be aware of the level of advance ticket sales and must consider the impact of their decisions on all creditors, including the holders of advance tickets.

In the event of an insolvency, the purchasers of such tickets may be able to reclaim their money from their credit card company. The credit card company would then become a creditor in the insolvency.

Appendix One: references

This appendix contains references relevant to Part A. Further resources are signposted in Part B.

Bennett, Nathan & Lemoine, G. James. (2014). What VUCA really means for you. Harvard Business Review. 92. Available at https://hbr.org/2014/01/what-vuca-really-means-for-you

Kim, W. C., & Mauborgne, R. (2003). Fair process: Managing in the knowledge economy. *Harvard Business Review*, 81(1), 127-136. Available at https://hbr.org/2003/01/fair-process-managing-in-the-knowledge-economy

Langley, D. & Royce, S. Business planning guidance for arts and cultural organisations. Manchester: Arts Council England. Available at https://www.artscouncil.org.uk/sites/default/files/download-file/Business%20Planning%20Guidance%20for%20arts%20and%20cultural%20organisations.pdf

Lemos, M. (2017). A Guide to Stakeholder Engagement for Healthier Communities. BSR. BSR.org. Available at https://www.bsr.org/en/our-insights/blog-view/a-guide-to-stakeholder-engagement-for-healthier-communities

Museums Association. (2014). Disposal Toolkit: guidelines for museums. United Kingdom: Museums Association. Available at https://www.museumsassociation.org/download?id=1075416

Museums Association (2014). Disposal toolkit Appendix 4: additional guidance on financially motivated disposal. United Kingdom: Museums Association. Available at https://www.museumsassociation.org/download?id=1075417

Museums Association. (2017). Museums Facing Closure: Legal and Ethical Issues. United Kingdom: Museums Association. Available at https://www.museumsassociation.org/download?id=1223556

Royce, S. (2019). Managing your funds and reserves: guidance for arts and cultural organisations. Manchester: Arts Council England. Available at https://www.artscouncil.org.uk/sites/default/files/download-file/Funds_guidance_report_140219_0.pdf

Slatter, S., Lovett, D, & Barlow, L. (2006). Leading Corporate Turnaround. Chichester: John Wiley & Sons Limited.

Contact us

Arts Council England
The Hive
49 Lever Street
Manchester
M1 1FN

Website: www.artscouncil.org.uk
Email: enquiries@artscouncil.org.uk