



Charity Trustees and Surviving the Recession

By Gillian Donald, partner, Scott-Moncrieff

Although some pundits believe the economic outlook is becoming a little brighter, there are still tough times ahead for many charities. This article focuses on four areas in which Trustees can help their charities: governance, strategic planning and delivery, cost management and working together.

Governance

Trustees have legal duties under the Charity Act and, possibly, under the Companies Act if incorporated. They must act with the care and diligence it is reasonable to expect of a person managing the affairs of another person: they must be slightly more prudent/risk averse with the charity's funds than they might be with their own. They must ensure the charity is solvent or face potential liabilities, in some cases personally.

Trustees can delegate their function but not their responsibility. Irrespective of how much time and energy you devote to your Trusteeship and how much is delegated to staff, the trustee body as a whole remains responsible in law for the charity's actions.

This presents challenges, as Trustees are usually one step removed from the charity's daily activities. They may meet infrequently. Trustees are probably not experts in all areas, so how do they ensure that the charity prospers in the current climate or that the information and relationships on the Board, and with senior staff, enable the charity to deliver on its objectives?

Some lessons can be learned from charities that experienced major public failures, helping avoid similar situations.

Governance failures

One Plus: one parent families' charity that went into insolvent liquidation owing around £4m to a combination of HMRC and banks. It had income of £11m plus and around 600 staff. OSCR's "post mortem" report produced very useful lessons that have become more pertinent as the financial climate has tightened.

The Festival Fringe Society Limited attempted to implement a new box office system during 2008 without success. Scott-Moncrieff was appointed to review the processes and identify areas where lessons could be learned.

Age Concern England set up an associated charity, Heyday. This failed to deliver its business plan, resulting in costs of around £22m and income of only around £2.3m.

In all cases there are common themes in governance failure:

Learning the lessons

[Trustees must have the right mix of skills and experience](#). If you are a social care provider you must have experts in social care; if you are an endowed charity giving out grants you must have experts in investment portfolios. All charities require somebody who understands the financial and operational aspects; legal, HR or general business skills are often useful. We recommend an audit of the Board's skills to enable Trustees to identify gaps and recruit appropriately.

[Understand the operating environment and the implications for how the charity is managed.](#) Most charities produce an induction pack for new Trustees but, thereafter, financial/policy briefings may be patchy. Trustees who are experts in their field, but don't understand the business side, must be enabled to comprehend the legal implications of taking on Trusteeship. Similarly, whilst those with financial skills might be able to ascertain the solvency of the organisation, they won't necessarily understand the implications of strategic policy developments on that financial position.

[Trustees must take ownership of the Board,](#) including development and performance review. Board appraisals are an excellent route to identifying development needs of Trustees to enable them to participate more fully. Our experience shows regular Board appraisals are rare.

[Trustees must receive full and up to date information that allows them to take informed decisions.](#) The important performance indicators for the charity should be identified. These need to be understood by all Trustees, with more detailed financial information for those who are experts.

[Develop appropriate risk management strategy and systems to mitigate these risks.](#) Risk should be a part of every Board's agenda. It doesn't necessarily have to be raised at every meeting but all Trustees should be aware of the risk environment and be comfortable that the decisions they make are within the acceptable risk parameters. Trustees must understand the systems and ensure there are processes in place to mitigate risk to an acceptable level.

Trustees must [seek independent professional advice](#) where there are problems or a skills gap. This is a recurring theme in all of the reports. Trustees don't often have a budget for legal and professional advice but the costs of not taking the advice and getting it wrong can often be catastrophic.

Other lessons to be learned included a requirement to have clear roles, responsibilities and delegated authorities. This allows staff and Trustees to know where responsibility lies for taking difficult decisions. For example, in the One Plus case difficult decisions needed to be made about potentially excluding children whose parents had run up large debts to the charity. The Trustees believed this decision should be made by senior management and senior management believed this was a Trustee's decision. The fact that no one made the decision was responsible, in part, for the charity's failure.

So, in the context of governance, what are some of the key aspects of strategic planning that become more important in a recession?

Strategic planning and delivery

The first aspect of strategic planning is that Trustees must agree the vision: in broad terms, what is the ideal future? From this they should prepare a 3-5 year strategic plan, which will contain a small number of measureable strategic aims that demonstrate progress towards the vision. They also need to consider the associated risks and break these strategic aims down into smaller objectives.

Revisit and reaffirm your vision. While it is unlikely this will have changed just because of the recession, it is likely the strategic plan will have changed: either you will see more opportunities for delivering your services or your objectives are going to be more difficult to achieve. Having identified your SMART (Specific, Measureable, Achievable, Realistic, and Time Bound) objectives, you should then consider scenario planning, the risks and implications of failing to achieve your objectives and the key performance indicators that allow you to determine progress. The important message is that, having thought through your objectives and the implications of not achieving them, you have a Plan B. This allows you to cope when things start going wrong.

Trustees must understand the overall context and how different aspects relate to each other. What happens if income drops 10-15%? What about the loss of a major source of funding? How adaptable is the service to price fluctuations?

Trustees should be able to understand the charity's progress, evaluate alternatives and take prompt remedial action from the strategic planning process. Finally; Trustees are not all-knowing and it is important to know when to call for advice.

Cost management

There are essential questions to ask about reducing cost or increasing the value of spend.

Is now the time to invest or save? Can a particular spend give better value – e.g. if you advertise, aim to negotiate cheaper deals as media are desperate for advertising income. Would a fundraising campaign give a better result now or a desired result for less cost? Is now a good time to invest in staff training, increasing skills and flexibility?

Could some costs be turned into income? Could you sell some intellectual property that you have built up: an expert knowledge in a particular area of law or health that affects the wider commercial sector?

Take out costs and processes that don't add value. Are you duplicating effort? Doing things manually that could be processed electronically by better use of your IT? Carrying out processes at too high a level of staff?

Everything is negotiable, including price or delivery. Don't accept the first offer!

Value for money is not the same as lowest price: sometimes it is worth paying a little extra for quality.

Longer term, consider **sharing costs** with another organisation...

Working together

Charities often decide to work together to win more "business": they will attract more funding if they work with another charity that brings different skills. Anything can be shared, from frontline service delivery to back office functions. This can be done formally or informally: a full merger, a separate company running a joint venture, or a simple joint contract. Statutory funders are putting more emphasis on bids from charities working with others to demonstrate additional value added.

However, do not underestimate the emotional investment required in working together. It requires commitment and leadership at Board level, time, and compromise on some key areas where you may feel very strongly, such as standards of care or service delivery.

Take professional advice at an early stage on the principles and in particular consider potential deal breakers, such as pension liabilities.

In summary

Trustees must be effective: they represent the leadership of the organisation and must be skilled, enabled and equipped to function properly. In a recession this is more important because the more nimble the charity the better it will be able to respond. Recessions tend to affect those who are already on the margins of society more acutely, so efficiency and value for money are essential. Take some of the suggested steps sooner rather than later, particularly where they may require financial investment.