Conflict Between the Needs of Today with the Demands of Tomorrow

How can Trustees Balance the Need to Spend Today with that of Reserves, Investments and Future Strategies?

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The Trustee Dilemma

So, your charity has reserves, fantastic, it gives both the employees and the trustees the comfort that there is a pot of money if it was needed, if say funding was lost, or an unexpected expense occurred. However, the age old problem comes of how much is too much and also when is it appropriate for you to use them? The conflict of spending now versus saving for the future; meeting the needs of today whilst securing the longevity of the charity.

Solving this problem lies with the board of trustees, those people who decide the strategic direction of the charity. Of course, the CEO and senior management team would be part of the strategic discussions, but the ultimate decision making on any spending of reserves has to lie with the board.

When is Spending Reserves a Positive Strategy?

There are plenty of good reasons to spend some of your charity's reserves, however to do this you need to be very clear about your reserves policy and the current level of reserves. Have the board agreed and completely thrashed out the reserves – not just rubber stamped six months of expenditure? Only once you properly understand how much you need and why you need it can you decide if you are able to spend any of it.

Equally as important is knowing the reserves figure at the current date. Year end financial statements can be nine months or more out of date and the reserves picture can have changed dramatically in that time. It is also crucial to understand the split of restricted to unrestricted reserves – ensuring that trustees have a clear picture of the "free reserves", not just the balance sheet total. These two figures can be a million miles apart and incorrect information could cause the charity to spend money that is reserved for specific projects.

Management accounts should always have a running total of reserves against budget and policy to keep trustees informed.

Good Reasons to Spend can Include:

- When you simply have accumulated too much and have the capability to fund extra services, projects, capital spend that will assist service users or enable the charity to move forward.

- When you know that funding is slowing down or ceasing and in order to replace that level of income you need to commit to a project or fundraising campaign etc. Spending now to reap the benefits in the future.

When Spending Doesn't Help the Charity

There are occasions where it is possible to justify spending reserves, but the long term impact for the charity is detrimental, examples would be:

- Plugging a gap in the funding to continue to provide services where there is little to no chance of obtaining longer term funding for the service. This prolongs the inevitable, it drains resources and reduces the amount of reserves available to commit to a project that could yield future benefits. Whilst it is a hard decision to cut any programme, the financial implications must be reviewed and the longer term consequences determined.

- Where you would be spending reserves that are invested for the longer term and provide annual income that is already committed. Often, reserves are held as investments that themselves generate valuable income for in year spending. To dig deep into these pots can have significant longer term implications. Any strategy that includes spending reserves allocated to investments should be undertaken with considerable caution.

What Should we Consider as a Board Before Making any Decision?

The charity needs to take stock and consider creating/updating a long term strategy. How long is long term, is for the board to decide, but at least three years could be considered sensible and anything after that seen as star gazing. The long term plan should thoroughly review the organisation, what it wants to deliver and how will that be funded. The plan should dovetail with the reserves strategy which should flush out whether there is any excess in reserves (or deficit). Excess reserves may need to be spent or if there will be gaps in income going forward, these may need to be planned for and strategies implemented.

If your organisation has this level of awareness, then these documents coupled with a comprehensive discussion document, giving a reasoned and well researched argument as to why reserves spend would be appropriate would be enough for the board to make decisions on.

What to do if the Board are in Conflict?

There will always be trustees who are reluctant to commit to spend any of the reserves, conversely there will always be those that want to deliver services outside of the annual budgeted income – in that respect it's no different to how individuals handle their finances. All any organisation can do is provide comprehensive evidence as to why the strategy is best for both the charity and its beneficiaries. The evidence provided should make the decision-making easy. Research and communication remain key to any strategy.

Case Study

A wildlife charity has historically been the recipient of large pots of government funding; it had reasonable reserves and was successful in delivering its aims and objectives. The tightening of public spending started to create a precarious situation for many of its projects and staff cuts looked likely. The reliance on Government funding had meant that whilst membership was important, it hadn't been a focus for a number of years. So, what was the Charity to do? The trustees knew they needed to generate more income, as with many charities in the current climate, the big question was how? Risk was going to play a large part in the trustees' decision making process, as whilst they had adequate reserves, there wasn't an excess to gamble with.

The trustees were provided with a number of scenarios and as with any board, some members are more risk adverse than others and some are born entrepreneurs, those see speculating to accumulate as part of developing. A mix of strategies was therefore required, using different levels of funding commitments, have different risk profiles and could also work together to produce maximum return.

They ultimately decided to focus initially on increasing membership, this was a reasonably low risk and low expenditure strategy, however the returns once the recruitment costs had been taken into account were also low and wouldn't themselves plug the gap. The second strategy was to commit to capital expenditure to ensure once the members were engaged, the visitor centres were a desired destination and once there, there were reasons to spend money. This was the riskier strategy, both from the initial commitment and the ongoing cash flow.

Both strategies complimented each other from a risk perspective and timeline perspective, cash flows were balanced and reserves impacted only to the extent of affordability. These weren't easy decisions for the board to make, but the organisation had access to good information, clear plans and objectives, great research and a good mix of diverse board members.

How we can Help

If your board can't agree, it's often worth obtaining an external opinion. Is this strategy a well reasoned, thought out plan? What do the auditors, lawyers, funders etc. think? Seek a variety of opinions that can look at the strategy from different perspectives. If you would like to speak to a member of our team about how we can help, then please get in touch with your local MHA member firm.