

THE POWER OF BEING UNDERSTOOD

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Charities – Challenges and Insolvency

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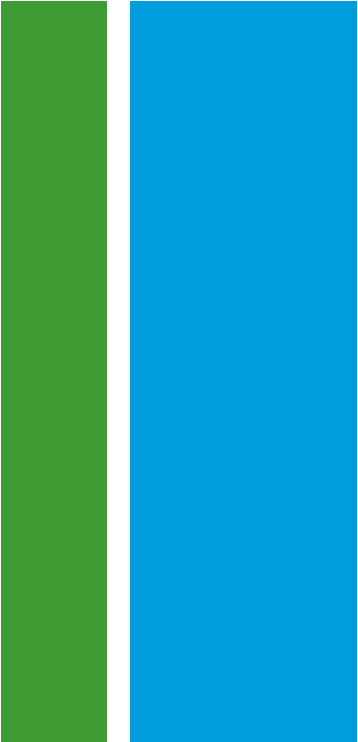
Charities – Challenges and Insolvency



Agenda

- What we are seeing in the sector
- Warning signs
- Tipping points
- Issues on insolvency

What we are seeing in the sector

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- Loss of major contacts
 - Fraud
 - Competition for grants
 - Conflict issues
 - Trustee fatigue
 - Funding challenges

Warning signs



Governance

- Qualified audit report
- Changes in directors/trustees
- Key stakeholder concerns
- Lack of communication and exploration from management/trustees
- Poor strategic planning
- Serious incident report

Warning signs



Financial

- Poor cash flow management
- Declining income streams
- Build up of PAYE/NI
- Full cost recovery issues
- Loss of key funders
- Reduction in reserves

Warning signs



Management

- Loss of key personnel
- Late management information
- Skill base of staff and volunteers
- Poor staff morale
- Overtrading/diversification into new areas

Insolvency tests

Cash flow test

The charity cannot pay its debts as they fall due for payment



Balance sheet test

The value of the charity's liabilities exceeds the value of its assets

Tipping Points

Decisive decision making



- Restructure
- Collaboration
 - Merger
 - Joint venture
 - Shared services
- Additional funding

OR



- Solvent
- Insolvent

Tipping Points

If a charity believes that it could be insolvent...

- Acting in the best interests of the beneficiaries of the charity to
- Acting in the best interests of the creditors

Trustee issues...

- Beneficiaries
 - Staff and volunteers
 - Duties and responsibilities
 - Speed of decision making
- and
- Personal liability

Additional liabilities in the event of insolvency

If a charity believes that it could be insolvent...

if unincorporated

- Personal liability of trustees

if incorporated

- Wrongful trading
- Fraudulent Trading
- Asset sales - caution
- Company Director's Disqualification Act

Insolvency Issues

Insolvency Options

- Solvent liquidation
- Administration
- Creditors voluntary liquidation
- Compulsory liquidation

What is needed

- Early action
- Strong Communication
- Collaboration between advisors
- Key stakeholder support

Issues

- Range of stakeholders
- Restricted funds
- Regulators
- Clawbacks
- Pension funds

Conclusion

- What we are seeing in the sector
- Warning signs
- Tipping points
- Issues on insolvency

Contact



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QUESTIONS?