

Presented by: **Patrick Rozario, Chairman, Organizing Committee of the Best Corporate Governance Disclosure Awards 2015, HKICPA, and Director and Head of Risk Advisory, BDO Financial Services Limited**

Date: **5 June 2015**

# **"CPAs for NGOs" social responsibility programme**

## **Compliance with the Best Practice Manual for NGOs**

### **Part I – Corporate Governance and Accountability**



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1. The Need for Effective Governance
2. Roles and Duties of NGOs' Governing Boards
3. Human Resource Management Highlights
4. Coping with the Best Practice Manual's (BPM's) Corporate Governance Expectations and Recommendations



# WHAT ARE THE CHALLENGES NGOs FACE?

- How to comply with applicable laws/requirements
- How to find the **value** from compliance
- How to meet the stakeholders' (clients, Government, local communities) demands
- Ability to create efficiencies and benefit communities from maximizing the use of LSG reserve
- Setting strategy and aligning it to appropriate resource management and service processes
- **Diversity** and **culture differences of NGOs**



# WHAT ARE THE CHALLENGES WE FACE?

- Leading a cohesive not-for-profit organization
- Establishing the right culture
- Finding first signs of problems / risks
- Motivating employees
- Reviewing performance
- A safe and rewarding place to work



# THE NEED FOR EFFECTIVE GOVERNANCE

Leading your NGO to effective corporate governance practice



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# GOOD CORPORATE GOVERNANCE

**Good governance** means transparent decision-making process, implementation, enforcement and accountability of the Board and management in a NGO to the public and their stakeholders.

**Effective governance** serves to ensure a strategic guidance of the NGO, effective monitoring of NGO's management by the Board, and the Board's accountability to its stakeholders - its clients, the government (as a source of funds) and the community.



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# IMPORTANCE OF CORPORATE GOVERNANCE IN BPM

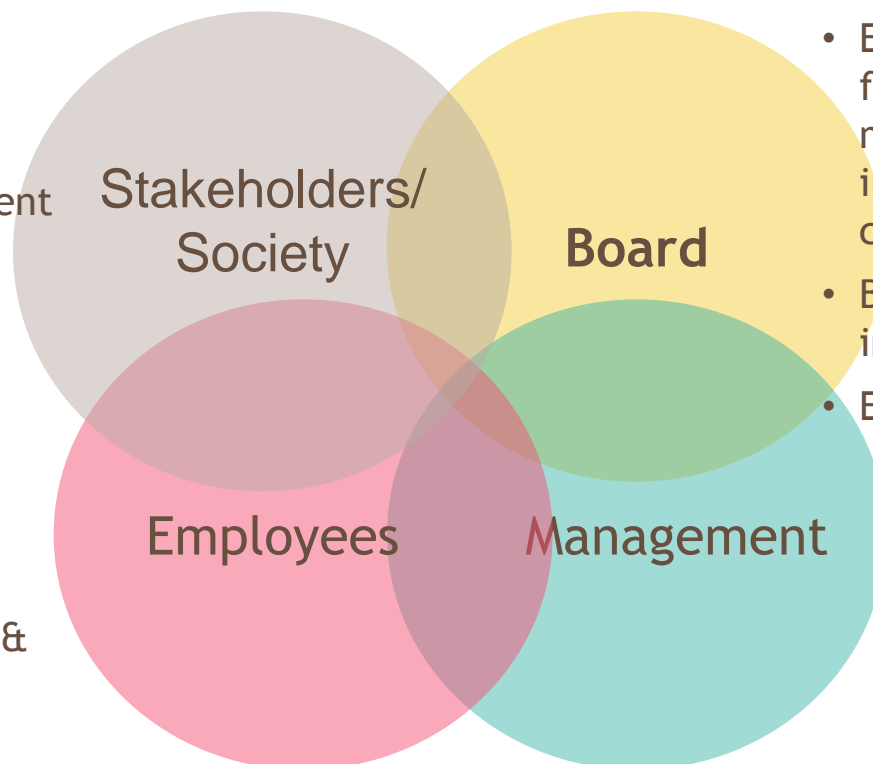
- Helps achieve NGOs' objectives
- Helps fulfill the expectations of the stakeholders
- Fosters and promotes an ethical and healthy NGO culture in Hong Kong
- Performs a self-assessment of compliance related to communication, roles and responsibilities of the governing board and management, and their duties in handling complaints, and other relevant human resources management expectations
- Provides a self-assessment checklist on NGO's progress of BPM implementation and helps planning for its continual improvement



# WE INTUITIVELY HAVE THE NEED FOR STRONG CORPORATE GOVERNANCE

## Stakeholders/Society

- Needs are fulfilled
- Impact on community
- Sustainable development



## Board

- Ensure stewardship frameworks in place (risk mgmt, financial reporting, internal controls, compliance)
- Balance all stakeholders' interests
- Enhance NGO reputation

## Employees

- maximise work time & remuneration
- minimise works

## Management

- maximise the use of LSG reserve
- minimise costs

There are conflict of interests





# WE INTUITIVELY HAVE THE NEED FOR STRONG CORPORATE GOVERNANCE

## For employees

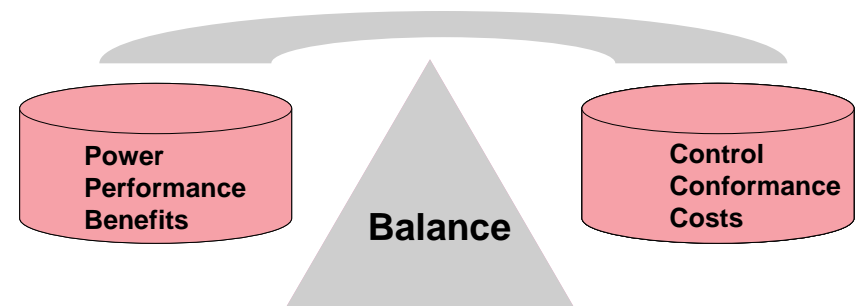
- stronger leadership
- consistent & transparent policies (equality)
- credit worthy management

## For stakeholders - clients/Government/community

- Benefits/needs met
- Properly maximize the use of LSG
- Willingness to form business relations with the NGOs

## For board / management

- accountability & expectation management
- drive out unethical behaviour
- lead crisis management
- governed by system but not dictatorship



**Chinese idiom: Balance creates harmony**



# CORPORATE GOVERNANCE

Corporate governance is a set of processes, customs, policies, laws, and institutions affecting the way an organisation is directed, administered or controlled.

Corporate governance includes the relationships among the many stakeholders (e.g. the governing board, employees, clients, government, and the community at large) involved and the goals for which the organisation is governed.



# ROLES AND DUTIES OF NGOs' GOVERNING BOARDS



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# GOVERNING BOARD

- The Board has a legal responsibility for the governance and oversight of the NGO and it should be carried out with duty of care, loyalty and obedience.
- It is responsible for creating an environment in which NGO is able to provide real value:
  - ✓ Effective and valued social welfare services
  - ✓ Accountability to funders
  - ✓ Trust and respect of the community
- Functions that require the Board to design processes for its governance include:
  - ✓ Accountability
  - ✓ Financial control
  - ✓ Compliance
  - ✓ Policy and Procedures
  - ✓ Public reporting
  - ✓ Risk management



# GOVERNING BOARD (cont'd)

- Board structure - high level of Independence
- Board responsibilities (duties; time commitment; monitoring; balancing demands)
- Board meetings (number of meetings; attendance)
- Board delegations (terms of reference; management and committees)
- Board leadership (roles and responsibilities of chairman, secretary, treasurer)
- Board appointment and termination (succession planning; retirement by rotation)
- Remuneration of senior management, and staff



# THE EFFECTIVE BOARD

- Makes clear decisions
- Listens to in-house expertise
- Ensures decisions are implemented

## **The Rubber Stamp**

- Does not consider alternatives
- Dominated by executives
- Relies on fed information
- Focuses on supporting evidence
- Does not listen to criticism
- Role of NEDs limited

- Long-term strategies
- Insufficient focus on current concerns
- Consider social & environmental implications

## **The Dreamers**

- Insufficient focus on current concerns
- Fail to identify and/or manage key risks
- Unrealistically optimistic

- All opinions given equal weight
- All options considered

## **The Talking Shop**

- No effective decision making/ implementation process
- Lack of direction from the chairman
- Lack of focus on critical issues
- No evaluation of previous meetings

- Short-term needs of investors considered
- Prudent decision-making

## **The Number Crunchers**

- Focus on financial impact
- Lack of blue-sky thinking
- Lack of diversity of board members
- Impact of social & environmental issues largely ignored
- Risk averse

- Strong focus on external environment
- Intellectually challenging

## **The Semi- Detached**

- Out of touch with the company
- Little attempt to implement decisions
- Poor monitoring of decision - making
- If out of touch with external environment, board becomes totally detached

- Clear decisions taken
- Decisions implemented

## **The Adrenalin Groupies**

- Lurch from crisis to crisis
- Focus on short - term only
- Lack of strategic direction
- Internal focus
- Tendency to micro- manage

- ### The Effective Board
- Clear strategy aligned to capabilities
  - Vigorous implementation of strategy
  - Key performance drivers monitored
  - Effective risk management
  - Sharp focus on views of key stakeholders
  - Regular evaluation of board performance

Source: LSE Practical Guide to Corporate Governance - which had taken from RSM Robson Rhodes LLP

# GOVERNING BOARD

## Accountability, risk management and audits

- Board's responsibilities and accountability for **financial resources** and **financial reporting** and disclosure preparation
- Selection, appointment and or dismissal of external auditors
- Annual review of the effectiveness of the system of **internal control** of the company
- Annual review of adequate staff qualifications and experience in financial reporting function
- Review cover all material controls, including financial, operational and compliance controls and risk management functions
- Identifying, evaluating and management significant **risks** faced by NGOs



# CORPORATE GOVERNANCE AND ACCOUNTABILITY

Coping with BPM's corporate governance expectations and recommendations



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# Best Practice Manual Structure

The BPM covers the areas of financial management, human resource management, and **corporate governance and accountability**.

The BPM is structured with 2 levels of guidelines :

- Level **ONE** guidelines are expected to be followed by NGOs unless with strong justification.
- Level **TWO** guidelines are those that NGOs are encouraged to adopt.



# Corporate Governance and Accountability

## Purpose

Aims to encourage NGOs under the Lump Sum Grant Subvention System (LSGSS) to **enhance** their **corporate governance framework** ensuring:

- the strategic guidance of the NGOs,
- the effective **monitoring** of the NGOs' management by the Board, and
- the Board's **accountability** to its stakeholders - its clients, the government (as a source of funds) and the community.



# Corporate Governance and Accountability Highlights

## ✓ Roles and Duties of NGOs in Complaints Handling (Level ONE)

- Composition, duties and responsibilities on handling complaints at different levels
- NGOs' policies and procedures on complaints handling

## ✓ Management Strategies (Level TWO)

- Effective communication
- Terms of Office of the Governing Board
- Roles of Governing Board

## ✓ Responsibilities of the Board and NGOs' Decision Making on Important Management Issues (Level TWO)

- Delineation of roles and responsibilities of the Board
- NGOs' decision *making* on important management issues
- NGOs' decision *made* on important management issues



# Corporate Governance and Accountability

## Complaints Handling (Level One)

- ✓ Policies that clearly spell out the responsibilities and duties of appropriate personnel at different levels in handling complaints (including NGOs, their staff, senior management and board members) are in place
- ✓ All persons involved must be free from conflict of interests
- ✓ All complaint cases and parties involved are to be handled fairly with appropriate monitoring/review in strict accordance to procedures set out by the NGO/Independent Complaints Handling Committee (IHC)
- ✓ NGOs are required to retain documents of complaints that spell out the control measures to each case of complaints handling for timely submission to IHC for investigation
- ✓ All follow-up actions taken must also be recorded and retained



# Corporate Governance and Accountability Management Strategies (Level Two)

## Effective Communication

- Establish effective channels of communication (e.g. emails, meeting, hotlines, suggestion boxes) between the Board, management, staff and service users for efficient feedback
- Documented procedures on how communications between staff/service users and the Board/management are carried out to ensure efficient feedback from staff/service users should be in place. Such information should be accessible by users/staff with the channels provided by NGO.



# Corporate Governance and Accountability

## Governing Boards (Level Two)

### Term of Office

- A succession mechanism for the governing board members especially with key roles (e.g. chairman, secretary), including terms of office, # of terms should be documented, in place and made known to public
- Documented procedures on how communications between staff/service users and the Board/management are carried out to ensure efficient feedback from staff/service users should be in place. Such information should be accessible by users/staff with the channels provided by NGO.

### Roles

NGOs should enhance the knowledge of their governing board and committees through various arrangements to strengthen their leading roles:

- Provide frequent updates of service information (objectives, # of staff and service users)
- Meet with subvented staff and service users to familiarize with the operations of their subvented services



# Corporate Governance and Accountability

## Boards and Management's Decision Making (Level Two)

### Delineation of the Board and management's roles and responsibilities

- The membership, roles and responsibilities between the governing board, committees and senior management should be clearly delineated in the terms of reference
- An organization chart which illustrates the structure and membership of the above parties should be documented and accessible via appropriate channels for the staff and service users



# Corporate Governance and Accountability

## Boards and Management's Decision Making (Level Two)

### NGOs' decision making process

- NGOs must consult staff and service users as far as practicable on important decisions that may affect them:
  - ✓ Change of existing establishment structure and staff ratios, etc.;
  - ✓ Change of remuneration package/the working conditions;
  - ✓ Re-engineering and rationalizing service delivery modes, and the corresponding manpower redeployment;
  - ✓ Service re-engineering;
  - ✓ Change of existing service delivery mode; and
  - ✓ monitoring compliance with service performance standards.
- Policies and procedures on feedback collection from staff/service users (e.g. opinion surveys, emails, questionnaires, newsletter) should be established and in place.





# Corporate Governance and Accountability

## Boards and Management's Decision Making (Level Two)

### NGOs' subsequent process on made decisions

- Policies and procedures on the dissemination of important made decisions (e.g. meetings, visits to service units, newsletter , notice boards) to the staff/service users should be established and in place
- Such dissemination of information should be made in a timely manner



# HUMAN RESOURCES MANAGEMENT

Coping with BPM's human resources expectations



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# Human Resources Management

- Human resources are the greatest asset of welfare services
- To maintain good governance, and enhance transparency -- best to **involve staff** in management matters, and **service users** in service planning, delivery and monitoring; and obtain updated **feedback** from relevant stakeholders.
- NGOs should have clear Human Resource Management **policies and procedures** in respect of performance appraisal, pay and reward systems, training and development, manpower planning, and recruitment and staff communication.



# Human Resources Management

## Salary Package Policy and Administration (Level One)

- NGOs must spend the allocation for salary adjustment for the designated purpose timely to all staff members subvented by LSG
- The spending must be in accordance to the relevant orders imposed by the Finance Committee of the Legislative Council (granting the allocation), the latest LSG Manual and Circulars, relevant letters/notifications of SWD (designated purpose of the allocation)
- When spending the allocation on salary adjustment, NGOs are required to either:
  - ✓ Adjust the staff salary by the same % of the Civil Service Pay Adjustment, or
  - ✓ Spend the full amount of the additional allocation for salary adjustment on salary adjustment for staff
- NGOs must timely inform and explain to all staff members about the salary adjustment for the financial year

# Questions



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# Thank You



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Presented by: **Isaac Cheng, Chief Executive, Greentins Social Ventures, and Honorary Accountant, Mental Health Foundation**

Date: **5 June 2015**

# **"CPAs for NGOs" social responsibility programme**

## **Compliance with the Best Practice Manual for NGOs**

### **Part II – Reserve Policy**



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# OUTLINE

- Why do NGOs need a reserve policy?
- What is a reserve policy?
- How to develop a reserve policy?
- Reserve policy and strategic planning





## 血庫存量

A型



B型



O型



AB型



充裕



滿意



尚可



低 (請即行動)



昨天捐血人數: 890人  
每日捐血人數目標為 1,100人

### 血庫存量持續偏低 請市民立即捐血 (9/1/2015)

#### 血庫存量持續偏低 請市民立即捐血

香港紅十字會輸血服務中心(中心)現呼籲市民立即捐血，以補充現時低企的血庫存量，以免影響須接受輸血治療的臨床病人。

中心發言人表示，雖然最近呼籲每天需要1,100人前來捐血才可穩定血庫存量及血液供應，但始終還是沒有足夠市民響應。在血液持續高需求的情況下，血庫存量再次下降至現時只得正常存量的五成，如未來一星期前來捐血的人數仍未達每天至少1,100人，血液供應及臨床病人輸血治療將會受到影響。

發言人亦指出，早前天氣寒冷，入院人數大幅增多，所有公立醫院的內科使用率超出100%，個別醫院內科使用率更接近130%；天氣冷令部份捐血者亦因病而需暫緩捐血，加上長假期市民外遊，多個因素令近期血液收集量較醫院平均每日血液需求量少，以致血庫逐步下跌至現時低存量。中心呼籲社會各界齊心支持捐血行動，惟有更多人參與定期捐血救人行動才可令中心全年穩定地為各類長期病患及急症病人提供充足的血液。

Source: Website of Hong Kong Red Cross

# Why do NGOs need a reserve policy?

- Reserve is unspent income fund.
- In principle, income received by an NGO should be spent within a reasonable period of time after receipt for the purpose of achieving its goals.

*Section 61 of UK Charities Act:* “It is hereby declared that a trust for charitable purposes places a trustee under a duty, where the case permits and requires the property or some part of it to be applied cy-près, to secure its effective use for charity by taking steps to enable it to be so applied.”

*Paragraph 2.36 of LSG Manual:* “Both LSG and LSG Reserve are accounted for under recurrent subvention and, in essence, are intended for operating expenditure for Funding and Service Agreement or FSA related activities.”

- If an NGO holds substantial reserve, funders, grant-makers, donors and other stakeholders may consider the NGO:
  - Not providing sufficient social services
  - Not providing quality social services
  - Not keeping abreast of the societal needs
  - Not innovating the way in providing service
  - Not capturing new service opportunities
  - Not controlling cost at a reasonable manner

## Percentage of cumulative reserve to 2012/13 LSG subvention

LSG reserve as % of 2012/13 LSG subvention	Number of subvented NGOs
Above 50%	24
41% to 50%	17
31% to 40%	22
21% to 30%	26
11% to 20%	32
0% to 10%	44
Total	165

Source: *Controlling Officer's Reply to Question Raised by Hon CHEUNG Kwok-che during Examination of Estimates of Expenditure 2015/16 (Member Question No. 619)*

## Reserve Position of Registered Charities in the UK (Year 2006)

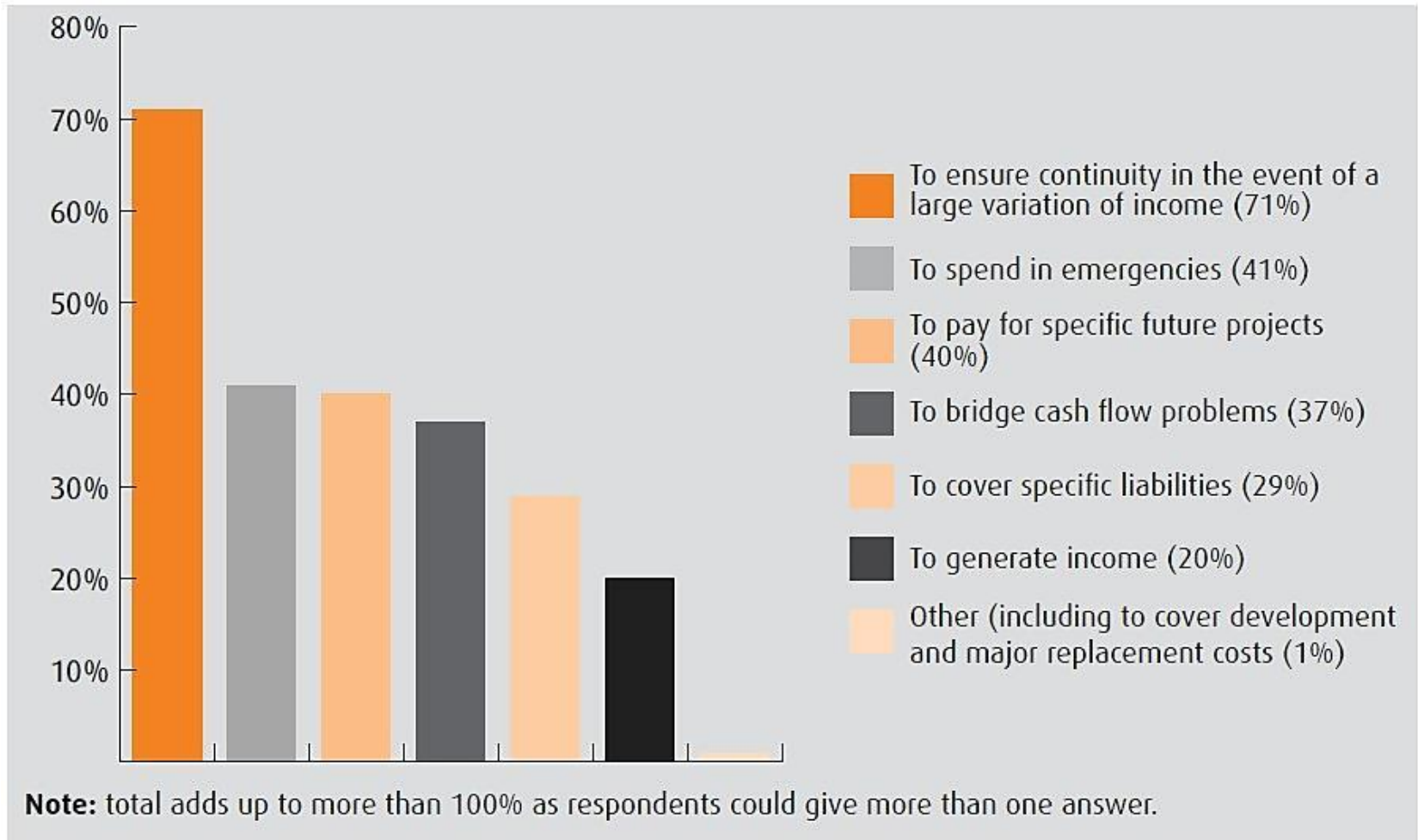
Charity's grouping by income	Coverage in months
With annual income £10,001 and £250,000	18.0
With annual income £250,001 and £999,999	16.6
With annual income £1 million or above	10.2

Source: *The Extent of Charity Reserves and Reserves Policies*  
by the UK Charity Commission in November 2006



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## What charities' reserves are for



Source: *Charity Reserves* by the UK Charity Commission in March 2003



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➤ Purpose of a reserve policy

- Enabling of sound financial management
- Demonstration of financial and service sustainability
- Ability to forward service planning
- Indicator of future funding needs
- Management of reputational risk from holding substantial reserve



# What is a reserve policy?



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- A reserve policy is an official statement about:
  - Purpose of maintaining reserve
  - Target reserve level and the rationale
  - Perquisite for utilizing reserve and the procedure
  - Review mechanism
  
- NGOs normally manage more than one reserve fund, each of which is subject to different regulations and circumstances
  
- A reserve policy should be developed for each category of reserve:
  - LSG reserve
  - General fund reserve
  - Designated fund reserve



# How to develop a reserve policy?

- Most NGOs in Hong Kong already have a reserve policy in place
- A reserve policy can be developed in a systematic manner:
  - Step 1: Stating the reasons for maintaining reserve
  - Step 2: Reviewing income and expenditure pattern
  - Step 3: Understanding the financial impact of risk
  - Step 4: Determining the target reserve level
  - Step 5: Communicating the reserve policy
- A reserve policy is a written record of the above five steps

# STEP 1: STATING THE REASONS FOR MAINTAINING RESERVE

- Maintaining a reserve means holding back of financial resources which could otherwise be deployed for service provision in current year
  
- A reserve policy explains to funders, grant-makers, donors and other stakeholders why a reserve needs to be maintained
  - ✓ Income variation
  - ✓ Emergency spending
  - ✓ Income generation
  - ✓ Future commitment
  - ✓ Cash flow mismatch



## Example: Cancer Research UK

# Reserves policy and management

Reserves are maintained at a level that enables the Charity to manage financial risk and short-term volatility. They allow the Charity to sustain optimal levels of research over the long term, ensuring that financial commitments can be met as they fall due.

Since our research commitments span many years, we plan over the long term. But as a fundraising charity, we are subject to the effects of short-term volatility in income. We hold funds in reserve to ensure that we can meet our research commitments in the face of such fluctuations. We use a rolling five-year plan to model how the Charity will manage resources optimally in delivering its strategy, while holding reserves at a level considered to be necessary. We have two reserves measures.

Source: 2013/14 Annual Report and Accounts of Cancer Research UK



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## Example: MacMillian Cancer Support

As a dynamic organisation relying almost entirely on voluntary giving, we need to hold adequate reserves so that we can react both to challenging economic times and to unexpected opportunities to support people affected by cancer. We also need to ensure that we have enough reserves set aside to cover any future pension commitments. At the same time, we always aim to maximise the money we can spend now to support people affected by cancer.

Source: 2013 Annual Report of MacMillan Cancer Support



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## Example: Children with Cancer UK

The Trustees have adopted a reserves policy which they consider appropriate to ensure the continued ability of the Charity to meet its objectives. The Trustees have reviewed their reserves policy during the course of the year and agreed to continue to aim to find a balance between maximising charitable work, preparation for contingencies and investing in our infrastructure. Consideration was given to assessing the risk, probability and likely impact on the Charity's ability to meet its financial obligations and reduce expenditure following any short-term decline in income.

Source: 2013 Annual Report of Children with Cancer UK



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## Example: Tearfund

### General fund

The general fund is unrestricted income which is available to spend at the discretion of the directors in furtherance of any of the charity's objectives. In previous years the appropriate level has been determined by taking into account coverage of general expenditure. In 2013/14 an exercise was carried out to review this to ensure the level was in the best interest of the charity. It was determined that Tearfund's requirements for general reserves are:

- to fund working capital;
- to give flexibility to respond to unexpected opportunities;
- to provide a cushion against seasonal variations in income and expenditure;
- to provide contingency provision against unexpected costs;
- to provide contingency provision to respond to changes in the charity's environment in which it operates;
- to fund strategic plans outside of normal operations.

Source: 2013/14 Annual Report of Tearfund



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## STEP 2: REVIEWING INCOME AND EXPENDITURE PATTERN

- NGOs need to review the pattern of their income source and then assess its characteristics

### Diversity of income source:

- ✓ Single or dominant source
- ✓ Multiple sources

### Characteristics of each income source:

- ✓ Vulnerability
- ✓ Stability
- ✓ Certainty
- ✓ Predictability



## STEP 2: REVIEWING INCOME AND EXPENDITURE PATTERN

- NGOs also need to review the diversity of their expenditure items and then assess their characteristics

### Diversity of expenditure items:

- ✓ Dominance of a particular expenditure item (mainly staff costs)

### Characteristics of each expenditure item:

- ✓ Predictability
- ✓ Stability



## Example: Children with Cancer UK

Since the charity relies solely on donated income, the Trustees feel it is necessary to hold reserves of between £9m and £11m, to mitigate the risks associated with such income streams and to give the Charity the stability to continue the development of its broader remit to fight childhood cancers. The charity plans to utilise its reserve base to make its income generation more sustainable. This includes embarking on a growth strategy and upgrading our charity wide infrastructure.

Source: 2013 Annual Report of Children with Cancer UK

## Example: Cancer Research UK

Since our research commitments span many years, we plan over the long term. But as a fundraising charity, we are subject to the effects of short-term volatility in income. We hold funds in reserve to ensure that we can meet our research commitments in the face of such fluctuations. We use a rolling five-year plan to model how the Charity will manage resources optimally in delivering its strategy, while holding reserves at a level considered to be necessary. We have two reserves measures.

Source: 2013/14 Annual Report and Accounts of Cancer Research UK



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# STEP 3: UNDERSTANDING THE FINANCIAL IMPACT OF RISK

- Risk = uncertainty
- Risk management is essential for sound NGO governance
- Certain risk events shall have a financial impact

## Variation in existing income source:

- Termination of existing funding sources
- Decrease in existing funding sources
- Changing public perception

## Unexpected spending:

- Unforeseen rise in demand for services
- Emergency spending



# Financial Secretary John Tsang suspends June funding for three government bodies due to ongoing filibuster

Phila Siu  
phila.siu@scmp.com

PUBLISHED : Sunday, 17 May, 2015, 12:36pm

UPDATED : Monday, 18 May, 2015, 7:14pm

A Hospital Authority spokesman said 90 per cent of its recurrent expenses came from government funding, but the authority would be able to mobilize cash to cover daily expenses so services would not be affected.

醫管局主席梁智仁則透露，醫管局每年營運開支約540億元，即每月平均超過40億元。由於醫管局儲備僅約30億元，流動資金亦不多，若停撥資助金超過一個月「就好大問題」，希望拉布議員體諒。



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Source: SCMP, 17 May 2015, and Apple Daily, 19 May 2015

# Government bureaus must cut growth in spending by 1pc for two years

Two-year scheme beginning in 2016 will save HK\$6 billion and avert fiscal crisis, advisers say

"For departments and bureaus that are spending mostly on manpower and giving out subsidises to others, like education and social welfare departments, there will be room for further discussion on how they can attain the financial target," one source said.

Source: South China Morning Post, 2 August 2014



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## STEP 4: DETERMINING THE TARGET RESERVE LEVEL

- There is no one-size-fits-all level of reserve that is appropriate for all NGOs
  
- The target level of reserve depends on:
  - Income pattern
  - Expenditure pattern
  - Financial impacts of risks
  - Future plans and commitments
  
- The target level of reserve can be expressed as:
  - ✓ An absolute figure/range (\$ 5 million or \$4 million to \$6 million)
  - ✓ A relative figure/range (3 month of operating expenditure)

# STEP 4: DETERMINING THE TARGET RESERVE LEVEL

## Proper timeframe

- Cash flow forecast is normally used to determine a target reserve level
  
- It is crucial to adopt a proper timeframe to perform the cash flow forecast
  - ✓ Monthly
  - ✓ Quarterly
  - ✓ Yearly
  - ✓ Other appropriate timeframe



## Example: Cancer Research UK

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Since our research commitments span many years, we plan over the long term. But as a fundraising charity, we are subject to the effects of short-term volatility in income. We hold funds in reserve to ensure that we can meet our research commitments in the face of such fluctuations. We use a rolling five-year plan to model how the Charity will manage resources optimally in delivering its strategy, while holding reserves at a level considered to be necessary. We have two reserves measures.

Source: 2013/14 Annual Report and Accounts of Cancer Research UK



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# STEP 4: DETERMINING THE TARGET RESERVE LEVEL

## Multiple timeframe

- It is advisable for NGOs to use more than one timeframe to perform cash flow forecast
  - ✓ Short-term volatility problem (cash flow mismatch)
  - ✓ Seasonal variation (major fundraising event in a particular month)
  - ✓ Long-term structural problem (unsustainable salary increment policy)

# STEP 4: DETERMINING THE TARGET RESERVE LEVEL

## Stress test

- It is crucial to perform stress test on the “normal” cash flow forecast
  - ✓ Base-case scenario
  - ✓ Worst-case scenario (10% drop in subvention, termination of major funding source, and etc.)

## A simplified template

	April	May	June
<b><u>Income</u></b>			
LSG subvention	\$500,000	\$500,000	\$500,000
Fee income	\$20,000	\$18,000	\$20,000
<b><u>Expenditure</u></b>			
Salaries	(\$400,000)	(\$400,000)	(\$400,000)
Provident fund	(\$24,000)	(\$24,000)	(\$24,000)
Other charges	(\$90,000)	(\$90,000)	(\$90,000)
Net Cash inflow / (outflow)	\$6,000	\$4,000	\$6,000

Vulnerability? Stability?  
Certainty? Predictability?

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Fee income	\$20,000	\$18,000	\$20,000
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Other charges	(\$90,000)	(\$90,000)	(\$90,000)
Net Cash inflow / (outflow)	\$6,000	\$4,000	\$6,000

Predictability? Stability?  
Risk events?



## Example: Macmillian Cancer Support

Target reserve range: 0.5 to 2 months of operating expense

Each year, the trustees review the amount of money we keep in our general reserve fund to ensure that we get this balance right. Our current target level of £20 million for general reserves, with a target range of between £10 million and £30 million, is unchanged since 2012. Our reserves level reflects the strong liquidity in our Balance Sheet and the flexibility of our grant-giving activities.

Source: 2013 Annual Report of Macmillan Cancer Support



# Example: Macmillian Cancer Support



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Source: 2013 Annual Report of Macmillian Cancer Support

## Example: Children with Cancer UK

Target reserve range: One-year operating expense

The Trustees have adopted a reserves policy which they consider appropriate to ensure the continued ability of the Charity to meet its objectives. The Trustees have reviewed their reserves policy during the course of the year and agreed to continue to aim to find a balance between maximising charitable work, preparation for contingencies and investing in our infrastructure. Consideration was given to assessing the risk, probability and likely impact on the Charity's ability to meet its financial obligations and reduce expenditure following any short-term decline in income.

Since the charity relies solely on donated income, the Trustees feel it is necessary to hold reserves of between £9m and £11m, to mitigate the risks associated with such income streams and to give the Charity the stability to continue the development of its broader remit to fight childhood cancers. The charity plans to utilise its reserve base to make its income generation more sustainable. This includes embarking on a growth strategy and upgrading our charity wide infrastructure.

Source: 2013 Annual Report of Children with Cancer UK

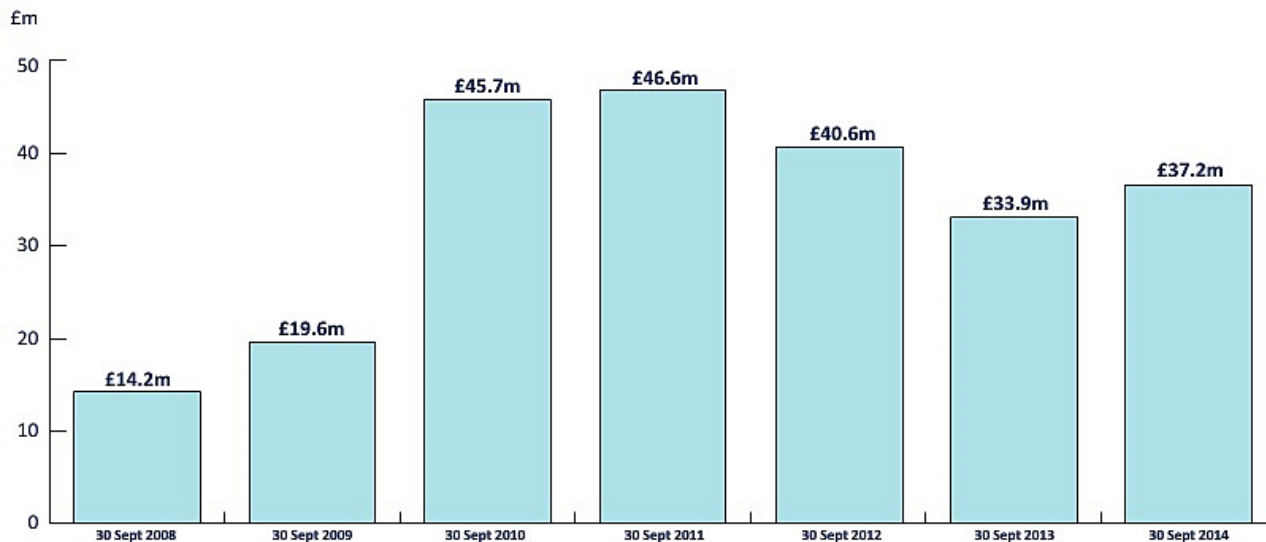
# Example: Help for Heroes

## General Funds

The General Fund represents free reserves. Our policy is to hold between 6 and 12 months of anticipated fixed running costs of the Charity. At 30 September 2014, the General Fund stands at £4.8m and represents five months of fixed running costs for the coming year. The Trustees are satisfied that the level of free reserves is therefore adequate.

### Income

The Group generates income through fundraising activities, including donated services, as well as trading activities and investments and cash deposits.



Source: 2014 Annual Report of Help for Heroes



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# Example: Help for Heroes (cont'd)

## Designated Funds:

### Individual Support

Given the urgency for some of our individual grants, many via the Quick Reaction Fund, it is necessary to protect this essential support from potential fluctuations in income. This emergency reserve is held at £2m, representing one year's costs, against any future volatility of income.

### Emerging Projects

Projects and grants are classified as emerging until needs are confirmed and costs approved. Trustees have designated reserves to recognise their potential commitment to projects and grants currently being assessed. At 30 September 2014, there are emerging projects and grants with a total value of £11.8m.

### Recovery Running Costs

The largest of the reserves, this is held to ensure that Recovery Delivery services continue to operate. The Trustees have set a policy that this reserve should represent 4 to 5 years of fixed running costs for Recovery Delivery less those costs provided for through other specific designated or restricted reserves.

Source: 2014 Annual Report of Help for Heroes

## STEP 5: COMMUNICATING THE RESERVE POLICY

- NGOs should communicate their reserve policy to their stakeholders:
  - ✓ Staff
  - ✓ External parties
  
- Communicating reserve policy with staff can be made through:
  - ✓ Release of reserve policy
  - ✓ Disclosure of level of reserve held and explanation of why they are held
  
- External parties
  - ✓ Inclusion of a statement about reserve policy and current reserve level in annual report




# Reserve policy and strategic planning

- A properly executed reserve policy helps:
  - ✓ demonstrate financial and service sustainability
  - ✓ forward service planning
  - ✓ indicate future funding needs
  - ✓ indicate the need for reviewing current strategy
  
- Therefore, reserve policy is linked to strategic planning because:
  - ✓ Reserve policy helps justify the need for strategic planning
  - ✓ Reserve policy proves the financial sustainability of a strategic plan

## Example: Cancer Research UK

A review of the policy is conducted every year. As a result of the review undertaken during 2013, we have a policy that states that 'managed cash and investments' should exceed a minimum of two months', but is not expected to exceed five months', annualised forecast cash outflow whilst the 'adjusted net assets' should exceed 10% of our annualised forecast fundraising contribution.

	31 March 2014 £m	31 March 2013 £m
<b>Managed cash and investments</b>		
Cash and investments	293	192
Less: funds under separate management <sup>1</sup>	(11)	(13)
<b>Managed cash and investments</b>	<b>282</b>	<b>179</b>
 <b>Months of annualised forecast cash outflows</b>	<b>5.7 months</b>	<b>3.8 months</b>

Source: 2013/14 Annual Report and Accounts of Cancer Research UK



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## Example: Cancer Research UK (cont'd)

At 31 March 2014, although the 'managed cash and investments' level is nearly six months of forecast cash outflows and 'adjusted net assets' represents 63% of forecast fundraising contribution, the Charity's five-year plans include projections for reserves to reduce as the Charity increases research expenditure and completes its funding contribution for construction of the Crick.

Source: 2013/14 Annual Report and Accounts of Cancer Research UK

## Example: Macmillian Cancer Support

Each year, the trustees review the amount of money we keep in our general reserve fund to ensure that we get this balance right. Our current target level of £20 million for general reserves, with a target range of between £10 million and £30 million, is unchanged since 2012. Our reserves level reflects the strong liquidity in our Balance Sheet and the flexibility of our grant-giving activities.

Source: 2013 Annual Report of Macmillian Cancer Support

## Example: Macmillian Cancer Support (cont'd)

### Actual reserves

2013 was a record year for fundraising with very strong performance late in the year across many income lines, particularly our key events including World's Biggest Coffee Morning. This has led to a one year surplus of £12.9 million. This surplus meant our general reserves stood at £47 million at 31 December 2013.

Source: 2013 Annual Report of Macmillan Cancer Support

## Example: Macmillian Cancer Support (cont'd)

Due to the very strong performance our reserves sit above our agreed range. We are planning increased charitable expenditure and income growth in 2014 and are targeting a deficit budget in 2014 and for the next two years with a plan to get within our agreed target range by the end of 2015. We think carefully about how we spend our money, so don't rush to use it if our income does better than expected.

Source: 2013 Annual Report of Macmillan Cancer Support

# Thank You



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