

## Insolvency

## When your money problems multiply



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According to a poll run recently by the Charities Aid Foundation, 41 per cent of charities are receiving less corporate income than they have budgeted for. Earlier this month, the Charity Commission estimated that one in four charities had seen donations fall in the past 12 months.

The economic climate is likely to get worse, not better, and things will remain difficult for some time to come. The recession means charities might face some tough decisions, and might even have to consider whether they ought still to be operating.

In this context, the trustees or directors of charitable companies must carefully monitor the solvency of their organisations – a charity can be considered to be insolvent if its liabilities exceed its assets, or if it becomes unable to pay its debts.

In the current market, if a charity finds that donations are down, or that it regularly has to dip into its reserves

**‘Seek assistance and advice at an early stage if you think your charity is facing long-term financial problems’**

because of falling income, or faces regular pressure from creditors, it is likely that it will no longer be granted access to an overdraft, loan or other line of commercial credit.

Charities have to be on top of their finances at all times, but especially during a recession. Financial management must be disciplined, clear and realistic. There comes a time in the life of an organisation when, having experienced financial problems for some time, its management must assess its position, take advice on how to proceed and decide whether it will be wound up or can successfully come through its difficulties.

If a charity’s management views its financial records and forecasts and can see

that the organisation is unlikely to survive, it is crucial that it takes the decision at the earliest opportunity to talk to lawyers or insolvency practitioners and, if necessary, cease to operate.

This will help the charity protect its remaining assets, minimise the damage to creditors and give staff the best opportunity to seek other employment. It will also allow the management to explore the possibility of restructuring or reorganising and minimise any criticism or liability that might fall on trustees and directors.

It is crucial that you seek assistance and advice at an early stage if you think your charity is facing long-term financial problems. It is also advisable to help your management by maintaining clear records of your board or trustee meetings, management meetings, management accounts and any advice you obtain. Sensible and disciplined management will ensure the best possible outcome.

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