INSPIRING FINANCIAL LEADERSHIP

Seven Big Ideas

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Brief Overview

- Previous role: Youth Volunteering charity vInspired (8½ years)
- Joined Keech Hospice Care two years ago.
  - "Making the difference when it matters the most"
  - High quality organisation, dealing with complex cases
  - Highly regulated
  - I first joined amid a period of great change

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Adult and children's hospice

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The Seven Ideas

- Borrowing from Reserves
- Short Term Windfalls
- Turning Bad Costs into Good
- When is a Balanced Budget not a Balanced Budget?
- Leveraging assets
- Lifetime Costs
- VAT on Education Programmes

❶ Borrowing from Reserves

Background: wanted to buy a new franking machine

- **“Is it in budget”**
- **“No. But that is the wrong question. It is earnings enhancing as it will save us money”**

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❶ Borrowing from Reserves

- **The Challenge: we set a balanced budget. If we have an earnings enhancing project, it should not mean we have to divert funds from patient care to pursue it**
- **The Solution: Established with Trustees the principle of borrowing from reserves to fund these projects.**

❶ Borrowing from Reserves

What happened next:

- **Project to grow lottery**
- **£100k pa income for one-off cost of £90k**
- **Any lapses reimbursed by agency**
- **P&L year one is a deficit of £40k**
    - **Cut patient care to fund?**
    - **No – borrow from reserves (effectively allow a deficit budget of £40k).**

❷ Short Term Windfalls

The Challenge:

- Reserves Policy set at 6 months' running costs excluding fundraising and costs of retail operation
- Five year target was increase of £100k pa
- Year 1: increased by £243k
- Many things needed doing round the Hospice that weren't in the budget
- Pressure to spend any surplus on new services

❷ Short Term Windfalls

The Conventional Solution:

- Spend surplus hurriedly in Q4 on necessary, but unbudgeted, jobs
- Difficult to Project Manage well
- Difficult to prioritise
- Some jobs have an excessive lead time

❷ Short Term Windfalls

Our Solution

- Took the surplus
- Submitted list of projects to Trustees for £153k (of which £133k-worth were approved)
- These projects were outside the 16/17 budget and reported separately
  - Initially a transfer from free reserves to a new Designated Reserve
  - It does effectively hit the Statutory P&L in the following year, but is covered by a reserves transfer

❷ Short Term Windfalls

The Ground Rules

- Balancing the budget each year is very hard
- Projects therefore were one-off: nothing which increased our underlying cost base
- Therefore not for the introduction of new services
- Spent on research project with uni; scoping of our education work; redecoration, signage; care equipment; review of our hydrotherapy pool; conversion of a bathroom; and IT and garden equipment

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❸ Turning Bad Costs into Good

- The Challenge: Funders do not like to see high core costs. They make a charity look inefficient.
- The reality: How do you classify IT costs? How about the space that operational staff occupy?
  - In a Hospice, all care staff use IT to access SystmOne, the NHS database. IT costs for these staff are therefore care costs, not core costs
  - In a mixed Head Office/Operational site, spend in operational areas is charitable expenditure, not overhead
  - Think about apportionment methods. E.g. Housekeeping

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❹ When is a Balanced Budget … er … not?

- The Challenge: Keech, like many charities, has substantial fixed assets.
- We have a Designated Reserve matching the value of fixed assets.
- We depreciate our buildings (£0.2m pa)
- The consequence of a balanced budget is therefore that our Free Reserves will increase by the difference between depreciation and capital expenditure (roughly equal to the building depreciation)

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❹ When is a Balanced Budget … er … not?

- If it is a struggle to balance the budget, consider setting a budget that will keep your free reserves level.
- A £0.2m deficit budget could therefore be balanced

	Scenario 1	Scenario 2
Net Income before Depreciation	400	200
Depreciation	(400)	(400)
Net Income	-	(200)
Transfer from Designated	200	200
Impact on Free Reserves	200	-

❺ Leveraging assets

- The Challenge: How to make the most of underutilised assets without losing focus
- The Hospice typically has between 4 and 8 beds occupied. We would like to maximize use of our assets
- How to fill the capacity, however, without starting to take non-palliative patients?

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❺ Leveraging assets

- Why is this a problem?
  - Mission creep
  - We would end up loosening our criteria and spending our charitable funds in a less focused manner
- The solution: treat capacity as not just as an opportunity to care for those who are on the periphery of our core mission. Treat it as an opportunity to fund our core mission.

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❺ Leveraging assets

- To take a silly example – if we put spare beds up on Air B’n’B, we could generate an income on spare capacity without adding to the nursing overhead, and without mission creep.
- Back in the real world – seek Continuing Healthcare Payments for non-palliative patients for whom we can provide care, but where we are clear this is not a core activity.

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❻ Lifetime Costs

- The Challenge: Our Restricted Income for our Children’s Hospice is getting close to our costs.
- However … it was not always so
- We are about to start an exercise to look at the lifetime costs and income of this service
- In effect, as if we have “borrowed” from Unrestricted Funds to finance the service.

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❼ VAT on Education Programmes

- The Scenario:
  (from my vInspired days)
- NCS is a six week volunteering/ outward bound/social action Rite of Passage for 15-17 year olds
- Using notional figures per place:

Staff Costs	850
Bought-in costs	150
Total Costs	**£1,000**

❼ VAT on Education Programmes

- NCS was commissioned by Government first time around
- Second time around, NCS Trust was floated off as an independent commissioning body, and grant funded
- Government didn't care if it was billed £1,000 or £1,000 + VAT
- For NCS Trust, VAT cannot be reclaimed, so bids were assessed gross

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❼ VAT on Education Programmes

NCS is not inherently exempt. However it can be delivered by an education company that is inherently exempt. This means there is unrecovered VAT on the £150 (£25) rather than lost VAT on the contract price (£167).

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❼ VAT on Education Programmes

vInspired delivered through a series of charitable partners, so having set up our own exempt Educational Subsidiary, we rolled out the instructions to our partners so they each did the same.

Questions?

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