

# Proposal for a new Financial Model for Sands

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**PROPOSED BUSINESS CASE FOR THE NEW MODEL  
FEBRUARY 2017**

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## **Appendices**

### **Appendix 1 – Sands' Current Financial Model**

## 1. Proposal

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To introduce a new financial model for Sands in the form of a single banking structure. This will enable Sands to make full and effective use of all available funds; ensuring that a real difference is made in line with Sands' vision and mission statement, whilst also encouraging and supporting a focus on working as one organisation.

The new model will also lead to improved financial governance, with excess reserves no longer being held in Groups'<sup>1</sup> bank accounts, but rather central reserves being held in line with Sands' policy on reserves. It will also allow adequate working capital to be made available to support business as usual.

### **Proposal:**

Adopt a Single Banking Structure consisting of four elements: a central current account, a reserves account, a restricted project account, and Group sub-accounts.

## 2. Background

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### **2.1 Current model**

The current financial model (appendix 1) has evolved over time and no longer meets the needs of Sands as it grows and extends its scope. The majority of funds raised are disbursed to Groups where they are used locally or, in the absence of any plans, are placed in Groups' bank accounts. This restricts the money available for national use and therefore the ability of Sands to make a holistic and strategic difference for all parents. As Sands grows, the negative effects of the financial model accelerate causing significant issues which include:

- Excess reserves accumulating in Groups' bank accounts
- Inadequate working capital with which to run the organisation
- Inadequate central reserves
- An inability to fund and undertake new strategic work
- Resources deployed transferring money around the organisation
- A complex accounting system which hinders timeliness and clarity

### **2.2 Lack of cohesion, systems thinking and trust**

In order to make a real difference for all parents, Sands needs to maximise the effects of working as 'one organisation', being able to work both nationally and locally but always together. The current structure promotes silo working which is less effective and triggers internal tensions resulting in funds not being used strategically to leverage the change that is both possible and needed.

It is important to note that there is enormous passion and commitment within Sands, with everyone working to achieve what they believe will make the biggest difference to parents. However without trust, systems thinking and an overall strategic plan to link all these endeavours, Sands' true potential will not be reached. A financial model that serves and

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<sup>1</sup> Throughout this document the term 'Groups' applies to Sands Groups

drives this approach is fundamental, and a paradigm shift from the current financial model is needed in order to achieve this.

### 3. Analysis

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#### 3.1 Internal and external effects of continued use of current financial model

##### Internal effects

- External auditors may issue a qualified audit opinion resulting in a loss of credibility for Sands
- Charity Commission may require or instigate action with regard to the increasing levels of excess reserves resulting in a loss of credibility for Sands
- An inability to demonstrate real impact relative to the level of funds raised as increasing levels of funds are held unused in Groups' bank accounts
- Insufficient accessible funds to undertake key elements of the new strategy
- Lack of ability to plan holistically and strategically and a reduction in the sense of Sands as 'one organisation'
- Increased use of staff time and charity resources in maintaining current financial model as the issues accelerate

##### External effects

- Loss of position as the 'go to charity' for stillbirth and neonatal death as a result of loss of credibility (see above)
- Reputational damage impacting on the charity's fundraising ability, both in terms of corporate and individual fundraising
- Insufficient accessible funds to take advantage of current opportunities to influence and effect real change politically and in the health and social care sector

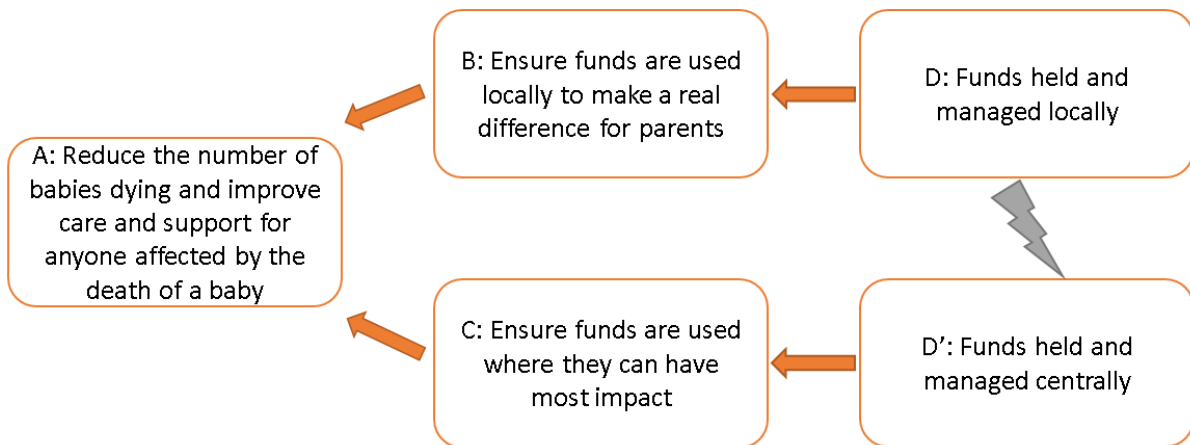
#### 3.2 Core conflicts

The way in which money is held and managed within Sands is affected by some core conflicts; further analysis reveals two fundamental dilemmas.

**Dilemma 1:** The first dilemma is based on the tension between on the one hand ensuring money is used effectively to make a difference to local parents who may well have raised the money, whilst on the other hand ensuring that money is used to effect impact nationally.

Any solution needs to ensure that Sands can demonstrate that money is used effectively both locally and nationally.

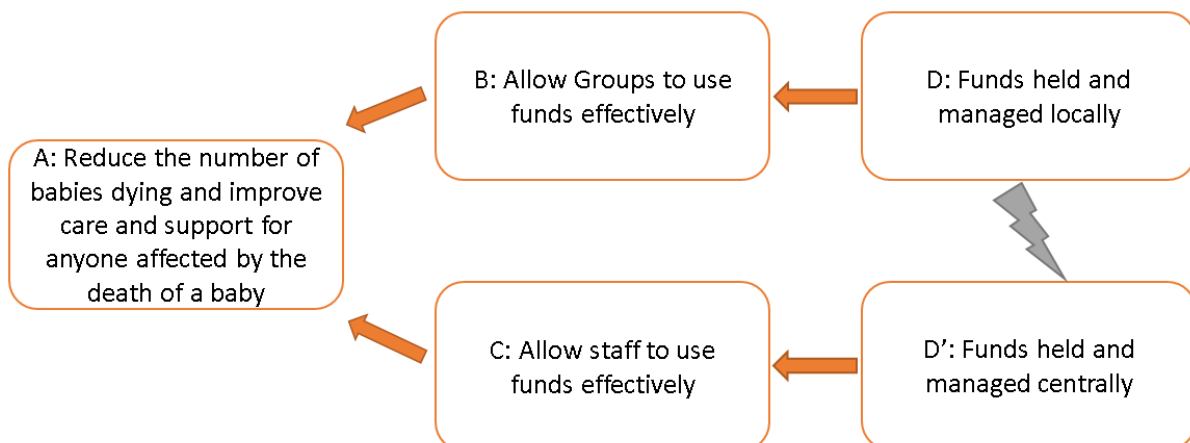
**1. First core dilemma relating to how Sands' funds are used**



**Dilemma 2:** The second dilemma is based on the tension between on the one hand enabling Groups to use funds effectively, whilst on the other hand enabling staff to use funds effectively. This dilemma underlines the lack of trust within the organisation, and the belief on the part of each that they will use the funds most effectively.

Any solution needs to ensure that the knowledge and expertise of both Groups and staff are utilised, and that trust is built between them.

**2. Second core dilemma relating to who uses Sands' funds**



**3.3 Best practice in other organisations in the sector**

In order to inform Sands' new financial model, information regarding best practice was sought from leading charities with UK-wide structure with groups or branches.

### 3.31 Benchmarking Sands' approach within the sector – gap analysis

Detailed discussions have been held with representatives of five leading charities with a group or branch structure; these charities had a combined annual income of £489M:

- **Macmillan:** Annual Income c. £230M – Head of Financial Operations
- **RNLI:** Annual Income £191M – Finance & Corporate Strategy Director and Head of Corporate Finance
- **Parkinson's UK:** Annual Income £31M – Director of Support & Local Networks
- **Girl Guiding:** Annual income £20M – Head of Finance
- **NCT:** Annual Income c. £17M – Head of Finance

A discussion is also scheduled with **The National Autistic Society**

The discussions were very open and candid, with all participants agreeing that their organisations had embarked upon a process of transformational change as a matter of survival and sustainability, with the actual pace of change being more incremental than first anticipated. All agreed that the current success of their respective organisations would not be possible without having gone through these changes which allowed a renewed focus on local activity and achievement, supported by a strong 'brand' in terms of marketing and support for local communities.

The organisations were at a different stages of 'evolution', but all agreed that their respective financial models required ongoing development and adaptation to take advantage of emerging technologies and banking arrangements. With the exception of the disbursements process and the lack of a meaningful investment strategy, Sands' current financial procedures met and exceeded most of the 'quality' metrics of the other organisations – especially in areas such as Groups' finance return rates, the ability to adopt to new banking technologies, and the ability to keep transaction costs low.

All of the organisations had transitioned from a similar position to Sands' current situation, to a 'cash pooling' model with most of their staff and volunteers buying into this process of change. This was achieved by working with their groups/branches over time; focusing on a strong 'case for support' centrally, and by implementing a financial model which allowed their groups/branches to have a say over cash raised locally.

### 3.32 Pros and cons

Whilst the detail of the various financial models discussed varied from organisation to organisation, the overriding priority was the centralisation of large cash reserves which allowed the charities to:

- Implement strategies for sustainability and growth, including policy and campaigning
- Increase brand visibility
- Increase the impact of the charity

The primary advantages sought within the financial detail were:

- Greater probity with regard to group/branch accounts
- Reduction of excess reserves held outside the central cash pool
- Simplicity of banking arrangements – for both ‘head office’ and groups/branches
- The ability for groups/branches to have a say over local funds raised
- Simple ‘paying in’ and ‘payment’ methods for fundraisers and volunteers

However, some of the detail of the financial models introduced, whilst they met the core objective of the ‘common cash pool’, led to further issues, such as:

- Where little autonomy was left to groups/branches, significant resources were required to process large numbers of low-value transactions and to ensure accountability to groups/branches
- Where a greater degree of autonomy was left to groups/branches, there remained a large number of multiple group/branch accounts across separate banking providers with no ‘rationalisation’ of banking product or subsequent reduction in fees
- Where groups/branches retained a higher degree of autonomy and were not ‘culturally aligned’ with the financial model, they were often incentivised to ‘work beneath the radar’ leaving staff to manage ‘deviance’ rather than ‘development’
- Where cash was aggregated into one bank account, there were higher central transaction costs
- Where customised software failed to integrate all online giving platforms into one central account, it resulted in high manualisation of work and a need to tolerate unallocated items
- Multiple mandates also caused issues in the analysis of income and disaggregation of expenditure, resulting in ‘head office’ taking on the role of a ‘high street bank’ for groups/branches

As a result of some of these unforeseen issues, some of the organisations felt that an even greater risk was being posed to the charity, in terms of:

- Accountability and transparency
- Dependency on customised systems that no longer worked
- Increasing demands on central capacity to manage overly-centralised processes and systems which had to be ‘disaggregated’ manually

### **3.33 ‘On reflection, what would have helped the transition/implementation?’**

Without exception, all organisations reported that they were in a process of change; the more evolved organisations proactively seeking out measures to improve finance ratios and ultimately the service offering and impact of the organisation itself.

On a *macro* level, it was agreed that an understanding of the overall ‘vision’ for the organisation was paramount and agreement on how a new financial model would support that vision.

Branding was also a key issue – both in terms of making the ‘case for support’ but also in promoting a sense of ‘oneness’ and unity – “*we are Macmillan*” being a perfect example.

It was also recognised that any change should be underpinned by a process for mentoring groups/branches at regional level, helping the charity to ‘connect’ in meaningful ways in local communities.

On a *micro* level, simplified processes for managing group/branch income and expenditure and disaggregating inflows/outflows was the most critical concern – with one (larger) organisation admitting that they should have involved the bank at an earlier stage to see how their technologies would alleviate the burden of this work from head office.

Nearly all said that they would move to a ‘cashless’ model – particularly in view of the gradual phasing out of cheques.

## 4. Presenting the case for the new structure

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Any new structure must meet a series of criteria that have been identified across the organisation by talking to internal stakeholders

### 4.1 Criteria that any new model must meet:

- Fundraisers **must** know how Sands spends money it is given
- Groups **must** know how Sands spends money it is given
- Groups **must** influence the use of funds in their geographical area
- Sands **must** have reserves in line with reserves policy and not accumulate excess reserves
- Sands **must** have access to sufficient available funds to support core activity and strategic plans
- Income levels **must** be sustainable over the medium to long term
- Sands **must** move towards building greater trust internally

### 4.2 Criteria that it would be good for any new model to meet:

- Clear visibility of all national and local projects and money still needed to meet targets
- Interest earned on reserves and restricted accounts

### 4.3 Construction of proposal for a new structure

The approach to presenting the case for the proposed new financial model will consist of 2 elements:

- 1) Presenting the case for a single banking structure as opposed to a single bank account
- 2) Within that single banking structure presenting the case for Groups’ sub-accounts as opposed to a single Groups’ account



#### 4.31 The case for a single banking structure as opposed to a single bank account

It is proposed to meet the criteria above by introducing a single banking structure which has provision to meet the needs of four discrete elements:

- 1) Current Sands activity
- 2) Reserves
- 3) Restricted or specific projects
- 4) Groups

Theoretically the needs of these four elements could be met either by a single banking structure with four discrete accounts, or by a single bank account. The majority of banks that offer 'charity banking services' offer both options. However the table below lays out the reasons why the single banking structure would benefit Sands more than a single account.

**Table 1: A single banking structure versus a single bank account**

Structure	Pros	Cons
Single banking structure	<ul style="list-style-type: none"><li>○ Accounts tailored to different elements e.g. higher interest on deposit account</li><li>○ Disaggregated reporting on each element of income and expenditure</li></ul>	<ul style="list-style-type: none"><li>○ Potential bank charges for 4 accounts; however this proposal includes Groups' sub-accounts at no charge</li></ul>
Single bank account	<ul style="list-style-type: none"><li>○ Potential simplicity of 'one account' to monitor, although significant internal work required to disaggregate</li></ul>	<ul style="list-style-type: none"><li>○ Inability to take advantage of higher interest rates for deposit reserves account</li><li>○ Dependent on internal disaggregation and reporting</li></ul>

##### **Element 1 of Proposal:**

Adopt a **Single Banking Structure** to provide transparency and accountability to all stakeholders and to take advantage of tailored interest rates and external reporting on discrete elements

#### 4.32 The case for Groups' sub-accounts as opposed to a single Groups' account

If the recommendation to adopt a single banking structure is approved, there is a subsequent decision to be taken with regard to the element relating to Groups. There are three options for structuring Groups' accounts which are laid out below:

##### **Option 1 – All Groups with sub-accounts but within single banking structure**

- All Groups have individual bank accounts which are sub-accounts of the overall single structure; the balances on these accounts will be limited by reference to size and structure of the Group, under a pre-determined framework
- Locally raised income is paid into the Groups' bank accounts
- All payments can be made via Electronic Purchasing Card Solution (ePCS cards), or centrally via BACS payments (see Section 5.2 for further details)

### **Option 2 – 10 Network accounts within single banking structure**

- All Groups in a Network share a single bank account. As with the single bank account for all Groups, the use of departmental/destination codes will identify separate Groups' budgets and be used to produce Groups' statements internally; only the Network account statement will issue from the bank
- All locally raised income is paid into the Network bank account with individual Groups identified by serial numbers. Again, this requires all fundraisers and volunteers to correctly identify the destination Group by code
- All payments made either locally via ePCS cards, via Network account or centrally via BACS payments

### **Option 3 – Single bank account for all Groups**

- All Groups share a single bank account but with the use of departmental/destination codes to identify separate Groups' budgets; Groups' statements can only be prepared by Finance team under this model
- All locally raised income is paid into a single bank account with individual Groups identified by serial numbers; this requires all fundraisers and volunteers to correctly identify the destination Group by code
- All payments made either locally via ePCS cards or centrally via BACS payments

**Table 2: Groups with sub-accounts versus Network accounts or a single account**

Option	Pros (blue also repeated in other options)	Cons
<b>Option 1</b> All Groups with separate sub-accounts but within single structure	<ul style="list-style-type: none"><li>○ Clear visibility of Groups' funds via individual accounts</li><li>○ Immediate Group 'ownership' of funds at local level whilst building a collective sense of potential opportunity and impact through national identity and brand</li><li>○ Annual funds required by each Network/Group identified and provided, and 'excess' reserves identified and used appropriately</li><li>○ Groups can both pay in and make payments easily</li><li>○ Larger invoices handled centrally and within scope of any VAT exemptions</li><li>○ All sub-account transactions easily identifiable; greatly simplifying the annual financial returns process; reducing amount of volunteer/staff time required.</li><li>○ Groups receive externally-verifiable bank statements (external) and statements of card</li></ul>	<ul style="list-style-type: none"><li>○ Need to introduce a framework to limit accrual of balances by Groups enabling 'excess' to be identified for transfer from sub-account which will require input from Finance team</li><li>○ Restricted projects account and Reserves accounts will still need to be disaggregated centrally as in Options (1) and (2) above.</li></ul>

	<p>expenditure; building sense of confidence in model</p> <ul style="list-style-type: none"> <li>○ Significant reduction of staff time in reconciling/disaggregating Groups' income and expenditure, resulting in greater transparency and accountability.</li> </ul>	
<p><b>Comment</b></p> <p>This option ensures Groups retain their identity and provides the external support of the bank to ensure there is accurate and transparent reporting at all levels. The issue of identifying and transferring 'excess' funds will need to be addressed for this option to represent the paradigm shift that Sands requires. There will also need to be a focus on encouraging Groups to start thinking of Sands as one organisation despite the structure reinforcing each Group's separate identity and function. Potential negative effects include:</p> <ol style="list-style-type: none"> <li>1. Transactions and communications with Groups continue to focus on financial issues rather than outcome and impact – providing a constant source of tension</li> </ol> <p><u>Mitigate by:</u></p> <ul style="list-style-type: none"> <li>○ <i>Identifying very clear and unambiguous definitions of 'excess' relative to each Group under the framework and a clear process and timeline for transfer</i></li> </ul> <ol style="list-style-type: none"> <li>2. Groups continue to operate in a 'silo' and do not adopt a 'one organisation' approach</li> </ol> <p><u>Mitigate by:</u></p> <ul style="list-style-type: none"> <li>○ <i>Sharing impact of the work of Sands as a whole, building a sense of ownership, sharing a compelling case for support</i></li> </ul>		

Option 2	Pros	Cons
Single bank account for all Groups	<ul style="list-style-type: none"> <li>○ Visibility of all Group funds in one account</li> <li>○ Annual funds required by each Group can be identified and provided, and 'excess' reserves identified and used appropriately</li> <li>○ Groups receive statements of card expenditure (external) and of Group funds (internal)</li> </ul>	<ul style="list-style-type: none"> <li>○ Size and complexity of 'cash pool' x 100 Groups too large/difficult to manage; compromises oversight and reporting functions</li> <li>○ Funds within the single account need to be disaggregated by Sands Finance/Fundraising teams and reported upon separately</li> <li>○ Funds paid in need to be disaggregated by Finance/Fundraising teams using serial numbers/destination codes</li> <li>○ More time required from Finance team to report in a timely fashion clearly and accurately to Groups</li> <li>○ Need for 'suspense account' for unreconciled items ; difficulty in tracing incorrectly coded income</li> </ul>
<p><b>Comment</b></p> <p>Although the simplicity of a single bank account is appealing in terms of feeling that Sands is truly working as one organisation, there are serious potential negative effects which include:</p>		

1. Lack of trust – a single central account for Groups' finances may feel like a 'step too far', especially for the devolved nations, and Groups' commitment and engagement could be lost
2. Losing the 'local connection' for fundraisers and reducing the commitment to fundraising
3. Higher administration and processing costs to disaggregate cash inflows and outflows
4. Dependent on correct manual coding of transactions; errors could result in incorrect allocation of income or expenditure across Groups which may undermine confidence in model

Option 3	Pros	Cons
10 Network accounts within single structure	<ul style="list-style-type: none"> <li>○ Visibility of Groups' funds via Network accounts</li> <li>○ Build sense of 'wider' local community via Network</li> <li>○ Groups receive Network statements (external), statements of card expenditure (external), and of Groups' funds (internal)</li> <li>○ Reduced time chasing annual return forms and trying to clarify financial status of individual Groups</li> </ul>	<ul style="list-style-type: none"> <li>○ Size and complexity of 'cash pool' reduced compared with Option 2, but replaced by an additional layer of complexity and potential bureaucracy</li> <li>○ All Groups' funds, including income, within the Network, account need to be disaggregated by Sands Finance/Fundraising teams using serial numbers / destination codes to support individual Group reporting.</li> <li>○ More time required from Finance team to report in a timely fashion clearly and accurately to Groups</li> <li>○ Need (x10) for 'suspense account' for unreconciled items ; difficulty in tracing incorrectly coded income</li> </ul>
<b>Comment</b> This is similar to Option 2 but with an additional layer of complexity in the form of Network accounts. Potential negative effects might also include an undue focus on building Networks which may detract from sense of 'one organisation'.		

#### Element 2 of proposal:

Adopt an approach where all Groups have separate sub-accounts but are within a single banking structure (**Option 1**) as this represents:

- the best way to retain Group identity and commitment whilst also introducing a robust single financial structure
- the closest fit to the successful models adopted by other charities addressing similar issues
- additional savings as Sands has successfully negotiated this approach to exclude Groups' sub accounts from the banking fee structure

#### Full proposal combining elements 1 and 2

Adopt a Single Banking Structure consisting of four elements: a central current account, a reserves account, a restricted project account, and Group sub-accounts.

## 5. Details of proposed new structure

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### 5.1 Structure

The proposed new structure is a single banking structure with four main elements:

**a) Central current account**

Within the central current account there would be provision for day-to-day current account activity for the entire organisation, including:

- Sands' income and operational costs
- Groups' expenditure on items such as bereavement/fundraising resources and training (see also 5.4(b))

**b) Reserves account**

The Reserves Policy (reviewed annually) will set out the level (currently £800k) of reserve funds required which would be placed on fixed term deposit to gain interest on funds

**c) Restricted project account**

This account would have access to deposit interest rates on balances > £10K (most likely) and will provide for cash inflows and outflows relating to:

- Central 'restricted' funds
- Groups' 'restricted' funds

**d) Group sub-accounts**

- Each Group would have a separately-coded sub-account, giving each Group an individual identity and a flexible option with which to cover their running costs, within the single structure
- Balance limits will be defined for the sub-accounts, by reference to a predetermined framework (see also 5.3) and the excess transferred to one of the other three accounts, as appropriate
- The mandates for the Groups' accounts would be held and managed centrally

### 5.2 Choice of Lloyds Bank

At the July 2016 meeting, the Board approved the opening of accounts at Lloyds, based on:

○ **Online support**

Lloyds provide an online banking system that recognises the importance of dual approval in relation to wider system administration and payments authorisation

○ **Implementation of Lloyds ePCS Corporate Cards**

Lloyds ePCS Corporate cards provided an alternative to the Alto cards being withdrawn by Unity Trust Bank in August 2016 and have been successfully piloted centrally since that time. Electronic Purchasing Card Solution (ePCS) cards are a government debit-card scheme introduced in June 2015 which support payments up to an approved limit. Cash withdrawal limits can also be set up on the cards which carry no annual fees and enable all cardholders to download detailed statements in real time.

- ***Treasury management and money market deposits***  
The previous banking arrangements at Sands did not support effective treasury management, i.e. the ability of the organisation to effectively manage its cash flows and gain maximum return on available cash. This should be a key part of the investment strategy. Lloyds offer enhanced fixed term money rates for charities – up to 1.45% depending on term, with shorter ‘notice’ accounts attracting minimum interest for balances over £10k
- ***Potential access to Lloyds Banking Group Foundations***  
Funded by the Lloyds Banking Group, these are independent charities seeking to support projects across the UK.
- ***Additional guidance, publications and relationship management***  
Sands has benefitted from a designated account manager and has received additional guidance in areas such as fraud prevention, especially online fraud. Further, Sands has had the opportunity to explore various options for a new financial model with Lloyds, and has been enabled to devise an innovative approach which addresses many of the issues faced by other charities in pooling its cash resources at minimal cost to the charity

### **5.3 Details of Groups’ sub-accounts**

- Every Group will have their own individual sub-account, which will be separately coded, enabling payments to be made directly into the account using individualised paying-in books
- Each sub-account will be classified under a framework<sup>2</sup> which will determine the maximum bank balance that may accrue in the account; any excess to be transferred to one of the other three bank accounts, i.e. *Reserves Account*, *Restricted Projects Account* and/or *Central Current Account*, as appropriate
- Each sub-account will have internet access for authorised members of the Group who will be able to view, download and print statements
- Each Group will be issued with an agreed number of ePCS cards for use on their sub-account to support local payments and cash withdrawals – up to pre-defined limits, determined for that Group using the classification framework
- Cheque books will not be issued on the sub-accounts in preparation for the gradual reduction and eventual phasing-out of cheque books
- Groups will have access to ePCS card(s), as required to support local activities, including payments for smaller goods and services; larger payments, including those for restricted Group projects, will be made centrally, upon request, by BACS. Where necessary, Groups may specifically request a cheque to be issued centrally

### **5.4 Processes**

The single banking structure enables cash to be freely transferred within the single structure and will support effective ‘treasury management’. This single structure will enable Sands to build and optimise the use of free cash reserves, whilst allowing any excess cash to be

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<sup>2</sup> Framework will be based on average expenditure patterns as identified in the 2016 Internal Audit, with limits for card payments and cash withdrawals to be set according to the same scale.

sensibly invested at money market rates. Processes across the organisation will be flexible and responsive to operational and strategic needs, both locally and centrally.

**a) Money held in Groups' sub-accounts**

- Each Group will hold funds in their account to cover their annual core activity; up to an agreed limit
- A framework will be used to determine the limit on each sub-account based on the amount each Group needs to fund its core activity
- The calculation of core activity will be based on the Internal Auditor's assessment, which will be used to allocate each Group a level within the framework
- The amount in a Group's sub-account is capped according to their rating within the framework. Where a sub-account balance exceeds its limit, the excess will slide over to one of the other three accounts, as deemed appropriate. The Network Coordinator and Group Liaison Officer (Finance) will communicate directly with Groups so that they are fully aware of any changes
- It is assumed that Groups will 'spend down' their allocation over the course of the financial year; if their agreed spend is more than anticipated, they will be 'topped up' from the *Central Current Account* to support further activity
- Groups will never be left to struggle financially and support will readily and flexibly be available to ensure that local activities continue to thrive

**b) Funds for agreed Group projects**

- Where a Group has a clearly identified project (memorial garden/bereavement suite), money raised towards the project will be paid directly into or transferred to the *Restricted Project Account*. Invoices raised for the purposes of the project will be settled centrally; also taking advantage of any VAT exemptions applicable
- Other areas of expenditure currently funded by Groups, such as Bereavement/Fundraising Resources and Training will be funded from the *Central Current Account* within the new model. An agreed list of items funded centrally will be developed and agreed with Groups, and will form part of the 'Guiding Principles' of the new model

**c) Excess funds**

- Every month any funds which take a Group over the capped limit are transferred to the *Central Current Account* to be used where the need is greatest. Alternatively, where funds have been received locally for a specific project, those will be transferred to the *Restricted Project Account*. The *Reserves Account* will be maintained at an appropriate level, as set out by the Reserves Policy.
- Groups will be kept informed on a 6-monthly basis of how Sands is using funds

## **5.5 Communications**

It is clear that excellent communications are a key element in supporting this new model – with both Groups and fundraisers needing to understand how funds are being used. This will be done by:

- Regular communications with Groups via the Group Networks and designated Groups Liaison Officer (Finance) staff, including monthly updates on Group balances
- 6-monthly updates on the use of Sands' funds

- Visibility of all projects in the restricted project account
- Updates regarding Sands' Reserves Policy and interest earned on reserves fund
- Annual accounts and Impact Report

### **5.6 Commitments**

- No Group will ever be left to struggle financially
- All Groups will be supported to provide core activities
- All Groups will be able to identify key projects that meet the needs of local families and to fundraise for these

### **5.7 Costs**

There are considerable savings in bank fees inherent in the model which Sands has negotiated with Lloyds. It is estimated that, with full take-up, fee costs will reduce from £8k to £1k per annum.

It is estimated that Sands currently spends almost £48.9k per annum of staff time in managing the current model of Group finances – including detailed annual returns and disbursement payments. Although staff start-up costs in 2017 are expected to be in the region of £12.8k (of which £7.6k is 'new' budget), it is anticipated that when the model is fully implemented savings of up to £20k per annum are achievable.



## 6. Implementation of new structure

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### 6.1 Agree on new financial model and required detail

- Share the business case for the new financial model with relevant stakeholders (trustees, staff, groups, volunteers, members, auditors)
- Review all feedback and develop a final iteration of new financial model

### 6.2 Project team and implementation plan

- Form cross organisational project team (to include finance, networks and volunteering, comms, fundraising)
- Develop project plan using Obstacles Table/Pre-requisite Tree/Project plan
- Communicate plan to whole organisation and implement as action research cycles using constant feedback to improve where necessary.

### 6.3 Timescale

Date	Action
January 2017	<ul style="list-style-type: none"><li>○ Complete meetings with other charities, internal and external auditors</li><li>○ Share business case with trustees and Group Finances team</li><li>○ Identify and confirm bank with which to work on new mode</li></ul>
February / March 2017	<ul style="list-style-type: none"><li>○ Share new financial model with staff, Groups, members and volunteers</li><li>○ Review all feedback and address appropriately</li><li>○ Include implications from business case in 2017/2018 planning process and budget</li></ul>
April 2017	<ul style="list-style-type: none"><li>○ Feedback and comments addressed and communicated back to Groups</li></ul>
May 2017	<ul style="list-style-type: none"><li>○ Complete final version of new financial model</li><li>○ Meet with bank to share final version</li><li>○ Set up project team and complete project plan</li></ul>
June 2017 onwards	<ul style="list-style-type: none"><li>○ Implementation</li></ul>

## 7. Cost/benefit analysis

### 7.1 Costs

#### Cost comparison current/new financial model

Cost centre	Current	Start-up 2017	Proposed (ongoing) 2018
Bank Fees <i>Note 1</i>	£8,000	£5,000	£1,000
IT/systems <i>Note 2</i>	£0	£0	£0
Communications <i>Note 3</i>	£0	£0	£0
	<b>£8,000</b>	<b>£5,000</b>	<b>£1,000</b>

### 7.2 Benefits

#### **Note 1:**

**Current** based on Group fees c. £6k in 2015-26 and HO £2k

**Start-up** based on 50% take-up of model: 4 Main Accounts @ £6.50 p.m. with fee waiver on 99 sub-accounts; £48 BACS file charges p.a. (payrollx12); Av. Chq lodgements 1884 x£0.40p; negligible cash lodgements

**Proposed** based on 4 Main Accounts @ £6.50 p.m. with fee waiver on 99 sub-accounts; £48 BACS file charges p.a. (payrollx12); negligible chq lodgements (chqs to be phased out in 2018); negligible cash lodgements

**Note 2:** No existing/new software requirements

**Note 3:** Included in Staff Costs

#### **Quantitative**

Reduction in ongoing costs (see above)

#### **Qualitative**

- Excess reserves are no longer held in Groups' bank accounts
- Adequate working capital is available to support business as usual
- Central reserves are held in line with Sands' policy on reserves
- Effective use is made of all available funds to ensure impact
- An increased sense of working as one organisation is possible, with tensions around 'ownership' of money removed
- The system for Groups' financial reporting will be greatly simplified
- Bereavement resources and training are no longer 'bought' reducing internal administration, transfers and invoicing
- All Groups are supported to provide core activities and eventually minimum bereavement care provision in their areas (e.g. bereavement suites)
- Groups will be able to identify key projects that meet the needs of local parents and to fundraise for these
- No Group will be left to struggle financially
- Geographical variations in the numbers of babies dying and in bereavement care and support (postcode lottery) can be reduced

### 7.3 Budget

Additional costs will be included in 2017/2018 budget, but thereafter overall cost savings will be made.

## 8. BRAIN (Benefits, Risks, Advantages, Intuition, Nothing)

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### 8.1 Benefits (as above)

The new financial model will ensure:

1. Excess reserves are no longer held in Group bank accounts
2. Adequate working capital is available to support business as usual
3. Central reserves are held in line with Sands' policy on reserves
4. Effective use is made of all available funds to ensure impact
5. An increased sense of working as one organisation is possible, with tensions around 'ownership' of money removed
6. The system for Groups' financial reporting will be greatly simplified
7. Bereavement resources and training are no longer 'bought' reducing internal administration, transfers and invoicing
8. All Groups are supported to provide core activities and eventually minimum bereavement care provision in their areas (e.g. bereavement suites)
9. Groups will be able to identify key projects that meet the needs of local parents and to fundraise for these
10. No Group will be left to struggle financially
11. Geographical variations in the numbers of babies dying and in bereavement care and support (postcode lottery) can be reduced

### 8.2 Risks

1. Groups do not 'buy in' to concept of single banking structure and do not engage with the process of introducing the new model

**Impact: High Likelihood: Medium**

Mitigate by:

- a) Working with individual Groups, listening to concerns and addressing them
- b) Identify key 'sticking points' and working to understand and resolve these
- c) Use scenario planning to explore what will happen if we do/don't introduce the new model

2. Internal processes/systems do not deliver financial information and support as promised and Groups are left without clear information about funds

**Impact: High Likelihood: Medium**

Mitigate by:

- a) Ensuring that all internal processes and systems are planned and thought through as a part of the new Information Systems project
- b) Ensuring that any new processes and systems are adequately funded and budgeted for
- c) Ensuring that all internal processes and systems are in place and tested before any changes are made to bank accounts

3. Internal processes/systems do not deliver clear comms to fundraisers and Groups about how money is used

**Impact: High Likelihood: Medium**

Mitigate by:

- a) Identifying clear key messages and concepts that Sands would like to share with fundraisers about how money is used*
- b) Scoping and planning the comms/approach in detail and ensuring that all plans are adequately funded and budgeted for*
- c) Producing collateral / updating social media and website before any changes are made to bank accounts*

4. Internal processes/systems are not robust enough to organise elements such as Bereavement Care Training, Memory Boxes, and fewer parents and healthcare professionals are reached as a result

**Impact: High Likelihood: Medium**

Mitigate by:

- a) Clearly identifying what elements will be paid for centrally and how additional elements can be paid for*
- b) Planning robust processes and systems to ensure effective and timely provision of elements paid for centrally*
- c) Ensuring all plans are adequately funded and budgeted for*
- d) Introducing comms and plans to Groups and healthcare professionals before any changes to bank accounts are made*

5. Wherever internal processes/systems do not meet promised standards, trust of Groups is undermined and further divisions and lack of engagement centrally occur

**Impact: High Likelihood: Medium**

Mitigate by:

- a) Ensuring that everyone involved in any aspect of these processes and systems understands the importance of excellent service in terms of gaining Groups' trust*
- b) Ensuring adequate planning and funding (as above) underpins the introduction of the new financial model and is clearly in place before any changes to bank accounts are made*
- c) Continually and regularly reviewing and evaluating the systems to identify areas of concern and areas for improvement*

6. The 'local connection' for fundraisers is lost and the commitment to fundraising is therefore reduced for some

**Impact: High Likelihood: Medium**

Mitigate by:

- a) Clearly reporting and communicating to Groups and fundraisers about how money is being used to make a real difference for parents and families*
- b) Providing excellent collateral and website/social media support to Groups to enable them to work with fundraisers locally*

- c) *Ensuring the new communications strategy focuses on connecting with local fundraisers, valuing their local commitment, but also placing this in the context of the UK-wide picture*
- d) *Encouraging Groups to build strong local identity and contacts – the structure of the bank account will not affect the outward facing work of Groups, in fact it should free them up to achieve more*

7. Groups are not convinced of the validity of central spend

**Impact: Medium Likelihood: Medium**

Mitigate by:

- a) *Sharing clear, honest, transparent information on how money is spent and on the impact that this has*
- b) *Actively seeking feedback from Groups on how they feel the money should be being spent centrally to achieve the necessary impact*
- c) *Prioritising clear communications with Groups about spend and activity – ensuring planning and budgeting takes this into account*

8. Some Groups decide that they do not want to be a part of Sands any longer

**Impact: Medium Likelihood: Low**

Mitigate by:

- a) *Working individually with Groups to listen and understand their concerns and to explain the rationale behind the new financial model*
- b) *Accepting that not all Groups may want to be a part of Sands once it has a new financial model, and working to ensure that any parting is respectful, supportive and amicable*

### 8.3 Alternatives

1. Continue with disbursements and Groups with separate banking arrangements, but introduce a percentage return on all funds received by Group e.g. X% of all funds are transferred to a central bank account on a regular basis  
*Although this approach would enable Groups to feel responsible for their own funds, it does not provide the flexibility that the system needs to ensure that on the one hand all available money is spent, and on the other hand no Group is left struggling. Even after returning X% of funds some Groups will have significant funds that they may have no plans for and that will sit in their accounts unused. Similarly other Groups will need every penny they get to keep offering support locally.*
2. Continue with disbursements and Groups with separate banking arrangements, but introduce planning cycle which looks at business as usual, plans/projects, buffer and then any surplus that is held in addition to this is transferred to a central bank account  
*This is in effect what is in place at the moment and is not working as it depends on significant engagement, commitment and transparency on the part of many volunteers. Although there may be some Groups who have the capacity to provide this, many Groups will not be able to do so and Network Co-ordinators will need to spend large amounts of time chasing and discussing financial matters with them.*

## 8.4 Instinct

Many of the volunteers attending the Listening, Learning and Sharing workshops suggested that some sort of more centralised approach to money would be in keeping with bringing the organisation together, making best use of the funds that we have, and reducing the current postcode lottery. It is also the approach that most other charities with similar structures have adopted as they have grown.

Instinct suggests that this then is the right model for Sands to adopt, though the skill will be in maximising the benefits of a single banking structure whilst also supporting, valuing and nurturing the unique and individual contribution that each Group can make.

## 8.5 Nothing

If we do nothing and retain the current structure:

1. If Sands continues to grow then the excess reserves held in Group bank accounts will continue to grow, and the working capital available centrally, which is already inadequate, will be increasingly dependent on the disbursement cycle to support the cashflow required to meet the needs of the charity
2. Sands central reserves will continue to be insufficient, inaccessible and at risk
3. The external auditors may feel they have to issue a qualified audit opinion and the Charity Commission may feel it necessary to intervene
4. Financial issues will continue to cause tensions and rifts in the organisation as staff struggle to maintain a model that is not fit for purpose and volunteers struggle with the responsibility of using and reporting on significant sums of money

## 9. [Link to strategic plan](#)

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In the new 2017/2020 Strategy the third strategic objective is  
***To grow as one strong, sustainable and effective organisation***

Four of the related organisational objectives are:

- Structure Sands to enable effective and strategic working, and to support growth and development
- Ensure a sustainable financial base with diverse income streams
- Build trust and a culture that embraces working as one organisation
- Building good governance

Introducing a new, effective and transparent financial model is a key part of this planning and will enable and underpin much of the other planned strategic activity.

## 10. Summary

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The proposed new financial model will bring stability to Sands, enabling it to grow safely and securely whilst also achieving more as it will be able to use funds effectively and to achieve the greatest impact.

It will address the financial issues relating to audit and working capital – thus removing an unnecessary element of risk and reputational damage. It will also bring the organisation together and remove an unnecessary cause of tension and additional work.

In summary it will remove risks relating to governance whilst enabling growth and cohesion.



## Appendix 1 – Sands' Current Financial Model

