

Insolvency Avoidance & Crisis Intervention

Regional Community Trust (Simulated Entity — a charitable company)

⚠️ FOR EXAMPLE PURPOSES ONLY: THIS IS NOT ACTUAL DOCUMENTATION. IT IS SIMPLY A REPRESENTATION OF DOCUMENTATION DEMONSTRATING ADVANCED CRISIS GOVERNANCE. ⚠️

PORTFOLIO NOTE: This scenario is designed to demonstrate methodological approach and governance literacy. Figures are illustrative, and techniques reflect standard UK charity governance practice.

1. THE PROBLEM (EXECUTIVE SUMMARY)

What happened: A £3.2m turnover regional charity identified a projected £450k structural deficit in Month 1, compounded immediately by the sudden, unmanaged departure of both the COO and Director of Finance. The board faced an imminent liquidity crisis and severe compliance exposure.

What the board's objectives were:

- Avert imminent insolvency and breach of going concern.
- Prevent unlawful commingling of restricted grant funds.
- Maintain delivery of essential statutory and community services.

What the approach was: Initiated an emergency 'war-room' governance cadence, implemented absolute cash controls, mandated strict ring-fencing of all restricted funds, and executed proactive, transparent stakeholder and regulator communications.

What "success" looked like: Avoiding formal insolvency proceedings, protecting 100% of restricted funds, and stabilising core service delivery through strategic downsizing and bridging contracts.

2. CONSTRAINTS (FIDUCIARY FRAMEWORK)

In the absence of executive financial leadership, the board faced strict legal constraints. In crisis, boards can become more hands-on, but must avoid turning trustees into management. To maintain this boundary, the board:

- Tightened the governance cadence to monitor daily viability.
- Established strict internal controls, cash reporting, and delegated authority changes.
- Appointed targeted interim financial support to execute emergency protocols.
- Maintained clear boundaries, keeping management (even interim) fully accountable.

⚠️ TEMPORARY CRISIS RISK APPETITE STATEMENT

"During this acute phase, the board formally adopts a strictly risk-averse posture: **cash preservation** is absolute, **restricted funds** must be aggressively protected, **service continuity** is prioritised over expansion or new ventures, and **reputational/regulatory risk** must be actively minimised at all costs."

Regulatory Action / Commission expectation: A formal report of a serious incident (RSI) was drafted regarding the executive flight and going concern risk, aligning with Commission expectations and regulatory good practice while demonstrating that the trustees had acted on the risk.

3. LEGAL & REGULATORY MAP (COMPLIANCE MATRIX)

Every intervention was mapped directly to UK statutory frameworks, maximising statutory compliance and actively mitigating liability exposure during the crisis vacuum.

Statutory Directive / Framework	Fiduciary Application & Evidentiary Artefact
Companies Act 2006 (ss.175-177) Directors' Duties	Mandate: Act within powers; achieve the charity's purposes (s.172(2)); weigh creditors' interests once insolvency is imminent (s.172(3); Sequana). Evidence: Conflict declarations (ss.175-177) in all emergency minute templates; independent options appraisals (ss.173-174) for restructuring.

Statutory Directive / Framework	Fiduciary Application & Evidentiary Artefact
Insolvency Act 1986 (s.214) Wrongful Trading (also s.246ZB)	Trigger: When directors knew/ought to have concluded there was no reasonable prospect of avoiding insolvent liquidation or administration. Evidence ("Every Step" Defence, s.214(3)): Weekly minuted going concern assessments, rigorous 13-week cash forecasting, and a documented creditor strategy demonstrating every step taken to minimise creditor losses once insolvency became unavoidable.
Insolvency Act 1986 (s.212) Misfeasance	Risk: Personal liability for misapplication of funds or breach of fiduciary duty. Evidence: Revoked delegated authorities; implemented dual-key sign-offs preventing unilateral misapplication of assets during executive absence.
Insolvency Act 1986 (ss.238, 239-240) Preferences & Undervalue	Risk: Invalidating transactions that prioritise specific creditors prior to insolvency. Evidence: Froze all non-statutory payments; centralised creditor strategy to ensure pro-rata treatment, with explicit independent legal advice required prior to any creditor prioritisation. Commercial valuation strictly enforced on lease exit clauses.
TUPE 2006, ERA 1996 & TULRCA 1992 Restructuring & Consultation	Risk: Automatically unfair transfer dismissals (TUPE reg 7); up to 13 weeks' pay per employee for failure to inform and consult (reg 16(3)); protective awards of up to 180 days' pay (TULRCA s.189). Evidence: Specialised employment counsel retained before transfer; statutory information and consultation timelines strictly observed.
Charity Commission Guidance (CC3, CC12 & CC19) Trustee Duties & Reserves	Mandate: Protect restricted funds (trust law; SORP 2.3, 2.9; CC12); manage resources responsibly (CC3). Evidence: Absolute forensic ring-fencing keeps restricted grant funds out of core unrestricted payroll; CC19 reserves policy rewritten.
Charity Commission Reporting a Serious Incident (RSI)	Trigger: Significant financial loss or risk to operational viability. Evidence: Proactive RSI drafted outlining the facts of executive flight and immediate risk mitigations (cash freeze), fulfilling regulatory good practice expectations.
Charities SORP / FRS 102 Accounting Discipline	Mandate: Accurate presentation of financial reality. Evidence: Formally documented material uncertainty regarding going concern disclosures, transparent restricted fund accounting.
CIGA 2020 Rescue procedures held in reserve	Prepared contingencies for Part A1 Moratorium and Restructuring Plans to buy breathing space from creditor action if initial stabilisation metrics failed.

4. BOARD-FACING INSOLVENCY DECISION TREE & SCENARIOS

A pre-approved fiduciary logic map engineered to remove emotional bias from board decisions, defining exact intervention triggers during the acute phase of the going concern crisis.

● **A. ABSOLUTE BINARY TRIGGERS (IMMEDIATE ACTION)**

IS PAYROLL PAYABLE IN 30 DAYS?	
IF YES → Proceed to Scenario planning and standard restructuring execution.	IF NO → Trigger immediate creditor standstill, seek emergency bridge funding, and take advice from an insolvency practitioner.

ARE RESTRICTED FUNDS EXPOSED?	
IF NO → Maintain restricted-fund controls (trust law; CC12) and routine audit trail oversight.	IF YES → Hard freeze on outgoing transfers, legally ring-fence accounts, initiate forensic reconciliation.

● **B. SCENARIO VIABILITY MATRIX**

SCENARIO	KEY ASSUMPTIONS / VARIABLES	OUTPUTS & STATUS
Base Case	<ul style="list-style-type: none">Grant funding drops reliably by Wk 4.Debtor collection (aged >60 days) reaches 70%.Council bridging contract secured.	Runway: > 16 weeks. Month-End Cash: Positive (£120k buffer). Status: Going concern verified. Execute planned cost-compression.
Downside	<ul style="list-style-type: none">Grant funding delayed to Wk 8.Debtor collection stalls.Bridging contract delayed 30 days.	Runway: 3-8 weeks. Month-End Cash: < £25k unrestricted. Status: Material uncertainty. Invoke emergency lease breaks. Commission update required.
Severe	<ul style="list-style-type: none">Grant funding withdrawn entirely.Bridging contract fails.Cost actions insufficient to cover next payroll.	Runway: < 3 weeks. Month-End Cash: Negative (Insolvent). Status: Formal IP retained. Suspend management ops. Prepare CIGA 2020 moratorium.

5. INTERNAL CONTROLS FRAMEWORK (CC8 ALIGNMENT)

Restoring the "essential checks and procedures" described in Charity Commission CC8 required the immediate formalisation of financial controls to prevent asset leakage.

SEGREGATION OF DUTIES
Immediate hard separation enforced between payment initiation, authorisation, and accounting recording, compensating for the depleted executive finance team.
APPROVALS & AUTHORITIES
Executive discretionary spend frozen. Tiered dual-key board authorisations implemented for any disbursement over £500.
RECONCILIATIONS
Mandated weekly bank reconciliations and forensic validation of restricted fund isolation to prevent unlawful commingling into working capital.
PROCUREMENT GATEKEEPING
Pause on all uncommitted capital expenditure. Every new vendor contract subjected to emergency board-level value-for-money stress tests.
FRAUD & WHISTLEBLOWING
Reinforced independent whistleblowing lines reporting directly to the Audit Committee Chair to mitigate fraud risk during the leadership vacuum.
AUDIT TRAIL EXPECTATIONS
Enforced strict decision log discipline, conflict declarations, and unalterable digital records for all crisis interventions.

6. DELIVERABLES BY PHASE

PHASE	KEY DELIVERABLES	PRIMARY OWNER	EVIDENTIARY ARTEFACT
Day 0-3: Triage	Cash freeze execution, bank mandate lock, restricted fund baseline audit, formal RSI drafting.	Interim CFO / Board Chair	72-Hour Action Plan, Submitted RSI
Week 1-4: Stabilisation	13-week cashflow rollout, formal creditor standstill requests, options appraisal matrix completion.	Finance Sub-Committee	13W Dashboard, Appraisal Matrix
Month 2-6: Restructure	Lease break execution, TUPE consultation, CC19 reserves policy rewrite, voluntary assurance initiation.	Full Board	Restructure Plan, Legal Sign-offs
Month 6-12: Maturity	TUPE completion (M8), full-cost recovery across all bids, long-term sustainability modelling, normalised governance cadence.	Audit / Finance Comms	Updated ToRs, Sustainability Model

7. CONTROLS: TRIAGE ARTEFACTS & BOARD REPORTING

These artefacts demonstrate the immediate mechanics of board competence, establishing rigorous internal controls without eroding executive accountability.

A. 72-Hour Action Plan (One-Page)

Objectives: Halt cash bleed, secure data architecture, assess going concern.

Immediate Controls: Suspend corporate credit cards; freeze all recruitment/capex.

Governance Cadence: Daily 15-minute Trustee/Interim stand-up.

Who owns what: Interim CFO (cash baseline), Chair (staff comms), Audit Comm (RSI draft).

What "must be true" by end of Day 3: Clear line of sight on month-end payroll viability; restricted fund integrity verified.

B. Data Integrity & System Continuity

Immediate protocol to prevent systems collapse matching the finance collapse.

Access Control Reset: Immediate revocation of departed executive system credentials across all cloud platforms.

Bank Mandate Review: Emergency removal of former signatories; dual-key physical token reset implemented.

Payment Run Controls: Hard stop on automated clearing; manual approval required for all BACs/CHAPS.

System Backup: Secured encrypted snapshot of cloud finance architecture (Day 0 state).

Single Source of Truth: Finance system locked as the definitive ledger; offline spreadsheets deprecated.

C. Weekly Board KPI Dashboard (One-Page Pack)

<div>UNRESTRICTED RUNWAY</div> <div>5 Weeks</div> <div>AMBER</div>	<div>RESTRICTED FUNDS PROTECTED</div> <div>YES (£185k)</div> <div>RING-FENCED</div>
<div>PAYROLL COVERAGE</div> <div>End of Month 2</div> <div>CLEARED</div>	<div>CREDITOR ARREARS</div> <div>YES (£45k)</div> <div>STANDSTILL ACTIVE</div>
<div>COST ACTION PROGRESS</div> <div>65%</div> <div>IMPLEMENTED</div>	<div>DELIVERY IMPACT</div> <div>Back-Office Only Frontline Unchanged</div> <div>MONITORING</div>
<div>REGULATOR / FUNDER STATUS</div> <div>RSI Submitted Funders Briefed</div> <div>COMPLIANT</div>	<div>AGED DEBTORS</div> <div>0-30: £15k 31-60: £8k 61-90: £12k 90+: £25k</div>

D. Delegated Authority Matrix (Revised)

Before (Crisis):
Exec sign-off up to £25k.
No restricted gatekeeper.

After (Board Control):
Exec sign-off frozen.
Strict dual-key controls.

- What is frozen: All project recruitment & capital expenditure.
- Who can approve what: Interim CFO up to £500 (OpEx only); payroll, tax and contract payments on a weekly approved schedule.
- Dual sign-off thresholds: >£500 requires Finance Sub-Comm. >£2,000 requires full Board.

Expiration: Temporary crisis delegations expire on [End of Month 3] unless formally renewed by board vote.

E. Risk Register & Minute Template

Top Mitigated Risks:

1. going concern → 13W cashflow. (Fin. Comm)

2. restricted breach → Ring-fencing. (Interim CFO)

3. HR / TUPE → Retain counsel. (Board Chair)

4. reputational → Proactive RSI. (Compliance Lead)

Minute Headers:

[going concern assessment] [decision log] [conflict declarations] [legal advice]

8. CONTROLS: RESTRUCTURING & ASSURANCE ARTEFACTS

F. Board Options Appraisal Matrix (Evaluated during Downside Scenario)

Option Evaluated	Fin. Impact	Legal Risk	Dependencies	Evidence Req.	Recommendation & Rationale	RAG
1. Freeze Hires/Discretionary	+£80k (Immed.)	Low	None	Updated cashflow	PROCEED: Immediate cash preservation; no service disruption.	G
2. Bridge Funding	+£100k (1 Mo)	Low	Commissioner consent	Signed Term Sheet	PROCEED: Extends runway out of Severe scenario threshold.	G
3. Exit Leases (Break Clauses)	+£250k (3-6 Mo)	Medium	Landlord consent	Legal lease review; Charities Act Pt 7	PROCEED: two sites that consolidate; HOLD the third (break penalty > saving).	A
4. TUPE Transfer (Staff)	Liab. Relief (3 Mo)	High (HR)	Partner / Union	Ext. Legal Opinion	PROCEED: Moves £600k payroll with the service; no redundancies on 18 posts.	A
5. Formal Insolvency	£0 (Immed.)	Critical	IP engagement	IP Initial Memo	HOLD: Viable turnaround paths exist; filing now hard to square with s.172(2) duty.	R

G. Going Concern Decision Note & Pack (Auditor-Ready)

Basis of Preparation: Confirmed as Going Concern (with material uncertainty disclosed).

- Why: 32% cost compression agreed, TUPE pending; 6-month bridging contract signed; £185k restricted funds 100% insulated from working capital drawdowns.
- Key Assumptions: TUPE transfers conclude without tribunal claims; aged debtor collection remains >70%; zero unbudgeted capex.
- Next Review Date: Fortnightly at Finance Sub-Committee until Month 12.

Documentation Pack Outline:

- Cashflow Forecast & Sensitivity Analysis: Base/Downside models applied to 12-month rolling projections.
- Principal Risks & Mitigations: Explicit bridging strategies mapped to identified revenue cliffs.
- Post-Balance-Sheet Events Logic: Formal assessment of events occurring between period end and sign-off.
- Board Minutes Excerpt: Minuted rationale, with challenges recorded, affirming the going concern assumption.

H. Conflicts of Interest & Governance Hygiene

CONFLICT REGISTER SNIPPET

"Trustee [Name] formally recused from landlord standstill negotiations due to pre-existing commercial ties to the property management firm. Recusal logged in central register."

HYGIENE POLICY ENFORCED

Immediate suspension of all discretionary hospitality. Zero-tolerance policy on gifts/benefits from distressed creditors/vendors.

DECISION LOG DISCIPLINE

Mandated that every major financial pivot (e.g., TUPE transfer) record: Who decided, why it was chosen, and what specific alternatives were rejected.

I. Restricted Funds Compliance Test (Trust Law & SORP)

- ✓ **Identify Restricted Funds:** Formally map all grant balances against restricted project ledger codes.
- ✓ **Confirm Bank / Ledger Segregation:** Ensure restricted cash is mathematically (and physically) insulated from unrestricted working capital.
- ✓ **Confirm Spend Eligibility:** Match all proposed disbursements strictly against original funder covenants.
- ✓ **Documentation & Funder Reporting Cadence:** Verify all impact reports and financial acquittals are up to date to prevent clawbacks.
- ✓ **Approve Transfers:** STRICTLY NONE to unrestricted accounts unless the funder permits in writing or the Charities Act allows.

MANDATORY SIGN-OFF PROTOCOL

Interim CFO:

VERIFIED

Audit Chair:

APPROVED

9. CONTROLS: STAKEHOLDER COMMS & CREDITOR STRATEGY

Crisis governance requires aggressive control of the narrative to prevent reputational collapse and creditor panic. These simulated templates ([] marks a field) establish credibility and legal protection.

J. Creditor Strategy & Standstill Protocol

STANDSTILL LOGIC & PRO-FORMA PLAN

Deploy universal 60-day standstill request to preserve working capital while the options appraisal concludes; it binds no creditor, unlike a Part A1 moratorium. Pro-Forma Payment Plan ties arrears to forecast grant receipts, insulating day-to-day operational cash.

"DO NOT PREFERENCE" WARNING & LOG

Explicit legal directive issued to all finance staff: *Avoid favouring "loud" creditors (preferences: Insolvency Act ss.239(5)-(6), 240). Centralised Engagement Log mandated to track all correspondence, evidencing the "every step" defence under s.214(3).*

K1. Staff Message (Internal)

"Colleagues, the board has identified a significant structural funding gap. To protect our core services, we have appointed an interim finance team. Payroll is funded through [End of Month 2], based on current projections and tight cash controls. We are exploring restructuring options and will commence formal, transparent consultations regarding any potential impacts to roles shortly."

K2. Funder Note (External)

"To our funding partners: The board has activated an emergency continuity plan in response to a sudden leadership transition. We have placed immediate controls on cash reserves and unequivocally confirm that all restricted funds remain ring-fenced. We are moving to a fortnightly reporting cadence to ensure total transparency."

K3. Charity Commission RSI (Regulator)

"RSI Summary: The board reports the sudden departure of the COO and Director of Finance alongside a projected £450k deficit, constituting a significant financial risk. Mitigation: Delegated authorities frozen, rolling 13-week cash-flow forecast established (unrestricted runway five weeks), interim CFO appointed. Timeline: Next board update to the Commission in 14 days."

K4. Auditor Note (Compliance)

"The board is currently assessing going concern under the Charities SORP. We are in advanced negotiations for bridge funding and are developing a formal restructuring model (including TUPE impacts). The complete Going Concern Pack, including base and downside sensitivity analysis, will be submitted for your review next week."

K5. Bank / Landlord Note (Creditor)

"We are writing to request a formal 60-day standstill on current lease/covenant obligations. The board has assumed direct oversight of a strategic turnaround plan designed to stabilise the entity and ensure equitable, pro-rata treatment of all creditors. The finalised payment plan will be submitted upon completion of our options appraisal."

10. OUTCOMES (TURNAROUND METRICS)





Mission Impact: £600k of the 32% compression was one commissioned service passing to the local authority with its 18 staff and income under TUPE (deficit-neutral); back-office lease exits, procurement and the freeze cut the deficit, so **frontline services continued**.

ASSUMPTIONS & CALCULATIONS

Deficit recovery % =

(baseline deficit - revised forecast) / baseline deficit

e.g., (£450k - £40k) / £450k = 91.1%

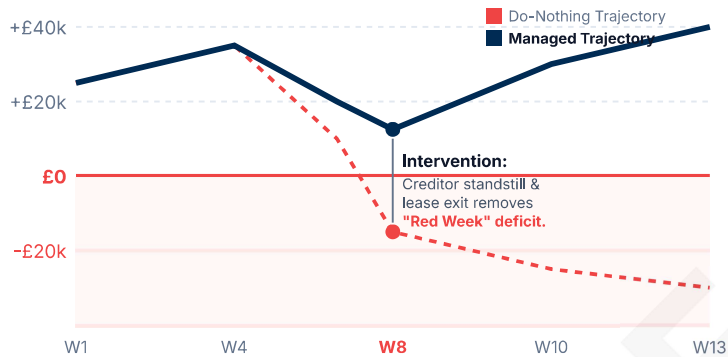
Cost compression achieved by:

(lease exits + headcount restructure + procurement renegotiation)

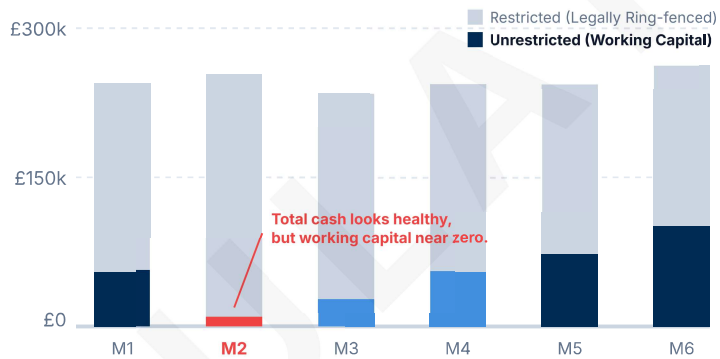
Liquidity reclaimed =

creditor standstill + lease exits + bridge funding + debtor acceleration (restricted funds excluded)

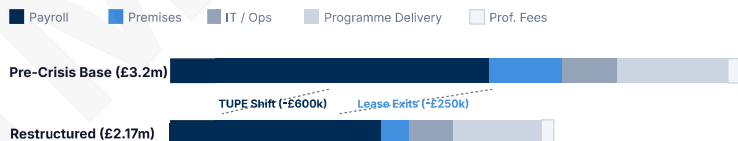
13-WEEK CASHFLOW TRAJECTORY (UNRESTRICTED)



LIQUIDITY SPLIT (WHY RING-FENCING MATTERS)



COST BASE DECOMPOSITION (ACHIEVING 32% COMPRESSION)



11. POST-CRISIS EVALUATION & LESSONS LEARNED

A credible turnaround requires acknowledging governance flaws. The crisis exposed structural weaknesses that allowed the deficit to be hidden. The following lessons formed the basis of permanent policy evolution.

WHAT FAILED (GOVERNANCE GAPS)

Over-reliance on synthesised executive summaries and a lack of granular financial interrogation at the board level. The board accepted generalised "total cash" positions without demanding proof of separated restricted liquidity, allowing structural deficits to be masked by grant injections.

MISSED INDICATORS (KPI BLINDNESS)

Failure to track pure working capital ratios. The board experienced "KPI blindness" by focusing on programmatic delivery targets rather than escalating aged-debtor flags and narrowing cash runways. Grant receipts held for restricted spending inflated "total cash" and masked near-zero working capital; restricted balances were intact but never proven monthly.

FORMAL GOVERNANCE REFORMS (PERMANENT)

COMMITTEE TERMS OF REFERENCE (TOR)

Rewritten to enforce mandatory financial literacy requirements for the Finance Sub-Committee chair. Fortnightly KPI dashboards (including 13-week cashflow) permanently embedded into standard reporting cadence.

INTERNAL AUDIT CADENCE

Shifted from basic annual compliance checks to targeted quarterly deep-dives specifically examining restricted fund reconciliation and ledger segregation integrity.

REVISED DELEGATED AUTHORITY POLICY

Permanently codified the crisis-era dual-key thresholds for all capital expenditure. Mandated explicit, documented funder-alignment checks for all restricted disbursements.

EXECUTIVE SUCCESSION PLANNING

Mandated the maintenance of "warm" interim cover plans and pre-vetted consultancy frameworks for all core financial and operational executive roles to prevent future leadership vacuums.

12. SIMULATED EVIDENCE INDEX

DATE	SIMULATED DOCUMENT	SPECIFIC FACT / ACTION	SIMULATED FIGURE
Month 1 (Day 3)	Interim_CashFlow_Baseline_v1.xlsx	Established authoritative working capital baseline and immediate exposure.	Identified £450k structural deficit and 5-week unrestricted cash runway.
Month 2	Board_Minutes_Emergency_Session.pdf	Enforced CC19 reserves discipline and frozen delegated authorities.	Suspended £85k of uncommitted pipeline capital expenditure.
Month 6	Finance_SubComm_Report_M6.docx	Authoritative tracking of deficit improvement and restructuring impact.	Deficit compressed to £40k ; cumulative liquidity actions £620k .
Month 8	Partnership_TUPE_Agreement_Final.pdf	Negotiated staff transfer to local authority commissioner framework.	Materially mitigated redundancy exposure for 18 operational staff .

EXECUTIVE COMPETENCY FORMULATIONS

Demonstrative phrasing designed to communicate advanced crisis capability, aligning theoretical protocols with high-level international governance standards.

- Crisis Fiduciary Leadership:** "Navigated a simulated insolvency threat (Insolvency Act 1986 s.214), tightening board cadence, establishing immediate 13-week cash reporting, and deploying interim management to uphold accountability while maximising UK regulatory compliance."
- Structural Financial Turnaround:** "Designed and executed a theoretical downsizing matrix, mitigating a projected £450k deficit through a 32% operational cost compression. Executed strategic lease severances and TUPE transfers to partner local authority commissioners, ensuring zero redundancy bleed."
- Commercial & Compliance Gatekeeping:** "Engineered emergency governance artefacts including Delegated Authority matrices to protect £185k of restricted funds and reclaim £620k of unrestricted liquidity. Mandated strict full-cost recovery modelling and upfront liquidity schedules to secure long-term sustainability."