

## NSW Office of Sport Webinar Series Session 2 Emerging with confidence and focus

### Outline

#### Introduction

Speaker introduction

Carl Millington



**Pitcher Partners Sydney**

*p.* +61 2 9228 2249 *m.* +61 400 104 678

*e.* [carl.millington@pitcher.com.au](mailto:carl.millington@pitcher.com.au)

Level 16, Tower 2 Darling Park

201 Sussex Street, Sydney NSW 2000

GPO Box 1615, Sydney NSW 2001

- Part 2 in a series of webinars organised by the NSW Office of Sport to assist SSOs recover from the impact of COVID-19.

#### ***The reason for holding the webinar***

- For many organisations, the recovery from COVID-19 has been sooner than initially anticipated, and with the support provided by the NSW Office of Sport towards the end of 2020, and the imminent availability of a vaccine, SSOs face a new year with more optimism and anticipation of a return to better times.
- In 2020 the focus on the “Now” helped organisations survive, but as optimism about the future grows, and as the need to micro-manage essentials such as cash flows and cash management reduces, it is time to replace reactive decision making with proactive decision making.
- Directors and management of SSOs should once again be looking to the future, building on the confidence gained in recent months, reflecting on the lessons learned during the crisis and resetting business strategy to reflect changes that may have occurred in their business model.

#### ***Where we left off at the end of Session 1***

*BAU as we knew it may become simply a benchmark against which we measure how much we have changed as a result of COVID.*

*Aspiring to return to what we knew before COVID will not be nearly enough for most organisations: the game has changed too much. But by rethinking your organisation, brainstorming various strategies, reimagining how you operate, organise, and communicate, you can set the basis for a successful and sustainable emergence.*



## ***Some observations on the impact of COVID in 2020***

- A number of organisations experienced their historically best operating result, mainly as a result of the government stimulus payments.
- Many organisations that did record a larger than expected surplus in 2020 are now worried about stakeholder expectations for 2021.
- Some organisations made decisions to invest in their members by providing financial assistance. In some cases the support was provided through the utilisation of existing reserves, in others current year surplus was used.
- Most organisations with employees received financial assistance, whereas smaller organisations with unpaid volunteers continued to struggle without any government assistance.
- Many organisations experienced an increase in employee leave entitlements on their balance sheet as a result of the staff not taking much annual leave during the year – creating a larger future obligation.
- Some organisations were forced to use reserves accumulated for future projects to fund the operating costs for the 2020 year.
- Many projects were deferred, a lot funded by specific purpose grants.

## ***Stop firefighting – moving from reactive to proactive decision making***

What is reactive decision making?

- The speed and depth of the impact of COVID-19 forced most organisations into a reactive mode. As society reacted to the sudden changes imposed upon it, SSOs were required to make short-term decisions to survive the fast developing and widespread situation, mostly without any forward planning or preparation. The result for many was that management found itself continually fighting fires.
- There were even situations where the speed and impact of events resulted in some organisations being inactive rather than reactive.
- Problems with reactive decision making
  - It is highly stressful and increases the pressure on directors and management.
  - With little time to assess a situation, there is more chance of making mistakes.
  - Allocation of resources can become haphazard and create more problems.
  - Continual firefighting can have an adverse impact on staff morale and work efficiencies.
- Reactive management, whilst a necessity during a crisis, is only good for a very short time and now that there is more confidence about the future, SSOs need to return to planning and preparing for the future.
- Proactive decision making has an eye to the future, a focus on potential opportunities and potential problems. It involves planning the future of the organisation and preparing for it.
- Directors and management can choose the actions they take, rather than being forced to react to circumstances and events. Proactive decision making involves choices. Reactive decisions are forced.



- An approach to moving from reactive to proactive decision making.

#### Time management

- Manage your time better and take the time to think about the future direction of your organisation.
- There is a difference between working **IN** your business and working **ON** your business. Both are required for success, but many times not enough emphasis is given to working on the business, resulting in too much reactive decision making.

#### Process improvement

- Poor or badly designed processes can create inefficiencies, increase the error rate, and generate a need for more reactive time to address the issues caused.
- For many organisations, COVID-19 provided a great opportunity to review their business processes, and in some cases completely overhaul the way they do things.

#### Risk management

- Managing risk involves proactively identifying what might go wrong and then establishing controls designed to reduce or prevent the negative impacts.
- If you take the time to identify and assess the risks your organisation faces, you will be better able to plan to address those risks.
- Risk management does incorporate both proactive and reactive elements:
  - Proactive risk management occurs before a risk becomes a threat.
  - Reactive risk management occurs after a risk becomes a threat.

#### Team morale

- If your organisation has been locked in a reactive mode for some time, there is a chance that staff are feeling jaded and have limited capacity to deal with wholesale change.
- Take the time to communicate your plans to move from reactive to proactive management, involve them with the planning and implementation, and invite them to offer suggestions and feedback on your plans.

#### Continuous improvement

- When playing a game of basketball, the key to success is for the team to work well together, utilise the strengths of each of the players and repeatedly work their process as agreed with their coach in training sessions.
- The process is repeated continuously throughout the season resulting in greater cohesion, better understanding and (hopefully) success.
- Your organisation's team needs to follow the example of the successful basketball team by working well together, identify and utilise the strengths and experience of each team member, and agree and use processes consistently.
- Too often organisations adopt a "set and forget" approach to implementing processes and fail to take the opportunity to continually review and evaluate their effectiveness.



- The key to success is continually starting from the beginning of the process and looking for new opportunities for improvement.
- In the last webinar I touched on the concept of “banking the lessons learned” during COVID. This is an integral part of a continuous improvement program and has the benefit of the proposed changes having already been tested during a crisis.

## ***Understanding financial statements***

DISCLAIMER – *This section is designed to assist you to understand the story told by financial statements, not how to prepare them.*

What are financial statements, and how do they differ from management accounts and reports?

Purpose of financial reports as outlined in Australian Accounting Standard AASB 101

*“Financial reports are a structured representation of the financial position and financial performance of an entity. The objective of general purpose financial reports is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Financial reports also show the results of management’s stewardship of the resources entrusted to it.”*

Financial statements are normally prepared annually and provide information on how the business is operating financially and why. They may be required to be prepared in accordance with Australian Accounting Standards, and they are normally made available to your organisation’s members and stakeholders.

Management accounts/reports are prepared for internal purposes and may contain financial and non-financial information, may not be prepared in accordance with Australian Accounting Standards, and are not normally distributed beyond the Board and management.

As we touched on in Session 1, your organisation’s financial records should be updated regularly to help you make timely, focussed and informed decisions. These records are used to prepare the financial statements which should, as a minimum, be produced annually.

It is possible that the method of recording and reporting transactions differs between financial statements and management accounts. This can lead to confusion if the operating result presented to Directors and management regularly throughout the year in the management accounts differs from the annual operating result presented in the annual financial statements. It is essential that if a difference does exist, it is adequately reconciled and explained to the Board. Examples of reasons for variations include:

- Management reports are prepared on a cash basis and don’t take into consideration non-cash items such as depreciation, movements in employee leave entitlements, and changes in stock and inventory levels.
- Management reports may be prepared on a functional or project basis.
- Financial statements may be prepared in accordance with accounting standards and recognise revenue on a different basis, or record leased assets on the balance sheet.

Both your annual financial statements and your regular management accounts prepared throughout the year provide financial information for continual improvement of business operations.



### NFP vs private sector financial statements

- The primary goal of a for-profit/private-sector business is economic - *to make a profit for distribution to shareholders.*
- While SSOs/NFPs also have economic goals, their principal objective is social or for a specific purpose rather than economic - *to encourage a game or sport, or to provide services and facilities to the community.*
- Economic goals for SSOs/NFPs are a means to an end, rather than an end in themselves.
- Therefore, the approach taken to interpreting financial statements of SSOs/NFPs must necessarily differ in important respects from the approach taken in the private sector.

### Components of financial statements

Income statement (also referred to as Operating Statement) is about the organisation's operating performance:

- it is for a period of time (normally 12 months)
- it assists with questions such as:
  - is the organisation operating at a sustainable level?
  - what are the various types and sources of revenues and costs and how are they changing?
  - how has the organisation allocated resources to various activities?
- measures the results of your organisation's operations for the reporting period and compares it with the prior reporting period
- discloses an operating surplus when revenues exceed expenses, which will increase your organisation's net assets (and financial strength) and increase capacity to reduce debt (and interest expenses), and invest in new assets. An operating deficit will have the opposite effect.

Balance sheet discloses the organisation's financial position:

- it is at a point in time (i.e. year or period end) rather than for a period.
- it assists with questions such as:
  - has the financial strength of the organisation improved or deteriorated? (e.g. have net assets increased, decreased or changed in composition?)
  - are there sufficient assets available to pay all liabilities?
  - is there scope to reduce the ongoing cost of funds through changes in the composition of assets and liabilities?
  - has the organisation created specific reserves for future projects, and are the reserves adequately back by cash and/or investments?
  - are any of the organisation's cash and/or investments restricted for specific purposes?

Statement of Cash Flows is about cash management:

- it is for a period of time (normally 12 months)
- it assists with questions such as:



- are operating activities self sustaining? (or do they require support from borrowing?)
- are operating cash flows sufficient to cover ongoing replacements of assets?
- how did cash flows impact on debt?
- to what extent is working capital (e.g. receivables and inventories) locking-up cash?

### ***Connecting the themes***

- For most, the COVID crisis has abated sufficiently to change from reactive management to proactive management.
- Proactive decision making is future looking, therefore your organisation needs to anticipate its future state to allow it to plan for it.
- Working ON your business is an important aspect of planning for the future.
- Lessons learned during COVID should be “banked” and used to improve systems and processes.
- Better decisions are made by having timely access to accurate and relevant financial and other information
- Better planning is likely to improve team morale and improve business efficiencies.
- Accurate and up-to-date information allows organisations to continually monitor the business improvement process, supporting continuous improvement.
- Understanding what the financial statements and management reports tell us supports better decision making and planning.

### ***Looking ahead***

- Strategic planning is, in simple terms, a process of:
  - identifying what you want your organisation to look like at some point in the future,
  - assessing where your organisation is now; and
  - identifying the actions required to move from your current state to your future state.
- It is commonly accepted that directors of an organisation are the custodians of the future of the organisation. How you define “future” will have a big impact on the decisions made, the strategies adopted and the continuing relevance of the organisation.
- Ensuring the future of any organisation requires continuous improvement, proactive planning, and timely well-informed decision making.
- Profitability is an essential component of this process, as without it, futureproofing your organisation will be difficult.
- Surplus is not a dirty word, nor is deficit if properly planned and communicated.



## ***Q & A - Example questions***

- Do all of our directors need to be able understand financial statements?
- What's the difference between reactive management and reactive decision making?
- As a small SSO we have limited resources and rely heavily on volunteers. How often should we prepare management accounts?
- How far into the future should we plan?
- Are the financial statements of all SSOs the same? If not, where do they differ?
- We have some accumulated cash as a result of Office of Sport grants, other government support and watching our expenditure. How do we reserve that for the future, and are there any pitfalls we should be aware of?