

Cash flow forecasts

What is a cash flow?

A cash flow forecast is a major element in financial management, linking in with your budget. The cash flow forecast looks at the future and predicts how and when money will come in and go out of your organisation.

It makes sure you will have the right amount of cash in the bank to pay your bills at the right time. It should help you avoid running out of cash during the year.

Why should you bother with cash flow?

There are many reasons why an organisation should produce a cash flow, these are some of them

- if your receipts and payments change throughout the year, such as grant payments being paid every three months or having peak work times over the year
- if you do not have much money – the cash flow forecast should make sure you don't run out of money
- if you have a lot of money – the cash flow will highlight periods throughout the year when a lot of money is coming into the organisation, at this point you could maximise your income from bank interest by moving money around
- if you use a current account to pay bills, but you want to keep as much money as possible in high interest

account – the cash flow forecast will show you when to transfer money from the savings account to your current account

How to produce a cash flow forecast

You will need to use the budget you've prepared for the year to put together the cash flow forecast. You can do it on paper, but a spreadsheet will be easier. See below for an example.

Step one – produce the table

Produce a table with one wide column on the right hand side and 13 thinner columns. The wide column is for the headings used in your budget and the other columns will be used for 12 months plus a total column.

Step two – fill in the figures

Working on each heading at a time, estimate when money will come in and go out of your organisation over the year and enter it in the table.

Some will spread evenly, such as paying rent every quarter, but others won't, such as grant payments or seasonal events. The totals for all the months should equal the budget for the year.

Step three – work out the cash flow

Estimate the bank balance at the start of the year. This amount, plus the receipts for the first month less the payments for the first month gives the expected bank balance at the end of the month. This then becomes the opening balance for the second month.

Hopefully, all the figures in the closing balance row will be positive, and this will show that you shouldn't have cash flow problems over the year.

If the closing balance figures are near zero, you will have to keep a close eye on your money coming in and going out. You should probably think about doing an extra fundraising activity in the problem month to get some extra money in. But don't forget – doing an extra activity is likely to cost money, so be careful.

If any of the closing balances are negative, you'll have to plan how you'll manage to pay your bills. You may be able to generate more cash or ask a funder to pay you earlier than planned.

Or you may have to try to negotiate with your suppliers to pay them later.

Step four – using the cash flow through the year

As with a budget, once you produce the cash flow forecast, it doesn't just stop there. The cash flow forecast can be used to monitor your financial situation through the year. You can do this by replacing your estimate figures with actual figures as the months go on. This will also make the final months' figures more accurate.

Six months example

This example shows a small group that has applied for an Awards for All grant of £3,000 to pay for equipment, two

Six month example

	Apr	May	Jun	Jul	Aug	Sept	Total
Receipts							
A4A		3,000					3,000
Subs	20	20	20	20	25	25	130
Raffles		20			75		95
Total	20	3,040	20	20	100	25	3,225
Payments							
Rent	100		100		100		300
Stationery	20			20		10	50
Event		200			500		700
Newsletter	5	5	5	5	5	5	30
Equipment			2,000				2,000
Total	125	205	2,105	25	605	15	3,080
Surplus/deficit	-105	2,835	-2,085	-5	-505	10	
Opening balance	140	35	2,870	785	780	275	
Closing balance	35	2,870	785	780	275	285	

events and rent. They also charge their members £1 per month subs, and you'll see that their membership increased by five people in August, possibly because of the summer event. The cash flow shows that they will not run into any problems over the six months.

For more information

Community Accounting Self Help

1 Thorpe Close, London W10 5XL

Voice 020 8969 0747

Fax 020 8969 5936

services@cash-online.org.uk

www.cash-online.org.uk

Community Accounting Plus

1st Floor, 32-36 Pelham Street,
Nottingham NG1 2EG

Voice 0115 947 0839

Fax 0115 958 8779

caplus@communityaccounting.co.uk

www.communityaccounting.co.uk

For one-to-one practical support and advice on book keeping and financial management contact

① Julie Eastlake

Finance Officer at VODA

Voice 0191 200 8559 or

julie.eastlake@voda.org.uk

Training

VODA runs a range of training through the *Training the Voluntary Sector* (TVS) programme or tailor-made training to meet the specific needs of your organisation.

For more information contact

① North Tyneside VODA

Voice 0191 200 8555

training@voda.org.uk

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North Tyneside VODA

The Shiremoor Centre

Earsdon Road

Shiremoor

NE27 OHJ

0191 200 8555 (voice)

0191 200 8556 (fax)

advice@voda.org.uk

www.voda.org.uk

Charity number 1075060

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