

The voice of the Voluntary Arts

Cashflow forecasts

Knowing and managing the flow and movement of cash is something that every organisation should be doing, regardless of size.

The timings of cash inflows and cash outflows do not always coincide, which can make things a little uncertain. A cashflow forecast can help you to deal with this. It is a simple and powerful tool, enabling you to plan ahead, identify problem areas and reduce uncertainty. Also, most grant makers require one in order to give you funding.

The cashflow forecast is based on information in your budgets, but it should also say when actual receipts and payments will happen. Basically, you are predicting what your bank statements will look like over a period of time. Usually this is done on a month to month basis for a year-long period. However, this is not set in stone and you can do it weekly, for shorter or longer periods and at any time during the year (not just at the beginning of a financial year).

Making your cashflow forecast

Table 1 (overleaf) shows an example cashflow forecast from a fictional organisation. Steps 1-9 explain in detail how to actually prepare a cashflow forecast.

Updating your cashflow forecast

Make sure you update your cashflow forecast regularly. The best way to do this is to change the forecasted amounts with the actual amounts as they come in or once they become known. Another way is to insert an extra column alongside each month in the forecast for the actual amounts. Either way, this will save time compared with saving up the information and updating in one large bulk.

It is important to review the future forecasted amounts when updating your forecast. If the amounts or timings are no longer valid, update them.

Using your cashflow forecast

If your cashflow forecast has been done accurately, then it will be a very useful tool for cashflow

management and planning. You will be able to forecast the amount you should have in the bank over the coming months and if this is a negative amount, you will see at a glance how much you will be overdrawn. A general rule is to try and make the timing of cash outflows and inflows coincide so that you avoid overspending.

If the forecast shows that in one or even several months you will be overdrawn, then you will have to look through the receipts and payments section in more detail. For example, in receipts you may be awaiting a grant the following month. However if the problems are consistent you will have to look at bigger issues – is your forecast accurate? Why are you overspending? Is it a larger structural issue?

Consider:

When doing your cashflow forecast there are a few issues you will need to consider in order for it to be accurate.

- **History:** look at the history of income and expenditure for the organisation; this will help you establish any patterns
- **Make allowances:** consider factors that may affect your organisation's cashflow. (e.g., staff changes, bad debts)
- **Be realistic:** be sure to be honest and realistic about your income and expenditure, especially when it comes to new projects and developments.

What do I do with the VAT?

VAT can have a significant effect on cashflow. If you organisation is registered for VAT (necessary if you have an annual income exceeding £58,000, not including grant aid), you will need to prepare a VAT calculation or estimate the amount of VAT which will need to be paid over to, or recovered from HM Revenue and Customs each quarter. If you're unsure visit the HMRC website where there is a comprehensive FAQ section for charities as well as publications available: www.hmrc.gov.uk

Making your cashflow forecast

Table 1 (below) shows an example cashflow forecast from a fictional organisation. Steps 1-9 explain in detail how to actually prepare a cashflow forecast.

1. Group your sources of income by category (e.g. donations, grants, fees, investment income, etc.)
 2. Group your expenditure by category. HINT: group these into fewer than you might usually find in your budget (e.g., 'office overheads' rather than rates, stationery, etc.)
 3. Enter the amounts you expect to receive and pay in the appropriate month (or period of time selected) on the appropriate line (as shown in Table 1)
 4. Total the receipts for each month (A)
 5. Total the payments for each month (B)
 6. Subtract the total payments from the total receipts for each month and enter the result in the **Net Cashflow** line. (A-B=C)
 7. In the **Balance Brought Forward** section, put the balance in the bank at the beginning of the month. (D) NOTE: This is only done for the first month of the cashflow forecast.
 8. Calculate the figure for the total of the monthly cashflow plus the balance brought forward. (C+D=E) This will give you the balance to carry forward to go into the box on the line **Balance Carried Forward**. (E)
 9. The balance to carry forward at the end of the first month is the balance brought forward in the next month and so on.
- The bottom line of the table is a prediction of what will be in the bank at the beginning of every month.

Table 1: Example Cashflow Forecast

Months	example	cont...	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
Receipts														
grants			20,000	0	0	0	0	0	15,000	0	0	0	1,500	0
donations			2,100	1,300	500	0	1,000	0	0	200	0	50	0	1,400
subscriptions			875	100	100	100	100	100	100	100	100	100	100	100
fees			34,560	5,000	5,000	5,000	5,000	8,500	5,000	5,000	5,000	9,000	5,000	5,000
publications			350	200	200	200	200	200	200	200	200	200	200	200
other income														
Total receipts (A)	A		57,885	6,600	5,800	5,300	6,300	8,800	20,300	5,500	5,300	9,350	6,800	6,700
Payments														
salaries			7,500	7,500	5,500	5,500	5,500	5,500	7,500	5,500	5,500	5,500	5,500	5,500
project costs			18,358	2,000	0	0	0	0	10,000	2,000	0	0	0	0
running costs			4,877	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
office costs			1,521	300	300	300	300	300	300	300	300	300	300	300
loan repayments			468	468	468	468	468	468	468	468	468	468	468	468
Total payments (B)	B		32,724	12,768	8,768	8,768	8,768	8,768	20,768	10,768	8,768	8,768	8,768	8,768
Net cashflow for month (A-B=C)	C		25,161	-6168	-2968	-3468	-2468	32	-468	-5268	-3468	582	-1968	-2068
Balance brought forward (D)	D	E	3,215	28,376	22,208	19,240	15772	13304	13336	12868	7600	4132	4714	2746
Balance carried forward (C+D=E)	E		28,376	22208	19240	15772	13304	13336	12868	7600	4132	4714	2746	678

Further Information & Resources

A Practical Guide to Financial Management, 2nd ed.
Kate Sayer, Directory of Social Change, 1903991293

A Practical Guide to Charity Accounting, Kate Sayer, Directory of Social Change, ISBN 1903991218

Just About Managing, 3rd ed. Sandy Adirondack, LVSC, ISBN 1872582176

NCVO www.ncvo-vol.org.uk

HM Revenue & Customs www.hmrc.gov.uk

Charity Skills www.charityskills.org

Disclaimer: We have taken reasonable precautions to ensure that the information contained in this Briefing is accurate. However, the document is not intended to be legally comprehensive. We recommend you take legal advice before taking action on any of the matters covered herein.

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