



## Cash flow

**Cash flow** is the amount of money that is flowing in and out of your organisation at any given time. They are used to predict an organisation's ability to pay its bills and expenses. In poorly-managed organisations, cash flow forecasts tend to be absent. Or, they may exist but are not updated. An understanding of your cash-flow is vital to good financial management; more so where cash levels are low.



All Trustees, not just the Treasurer, need to understand cash flows - in the context of their budgets and management accounts. Otherwise the Board cannot make unified and strategic decisions about the allocation of resources – which may be key to the survival of a project.

### A Cash flow Forecast:

A budget plans which sources of income fall into which period, but in reality, money does not change hands at exactly the same time as a piece of work is done. A Cash flow forecast will map when the money actually changes hands. It shows how much money you will spend and receive broken down into monthly amounts, together with the balance you expect to have at the end of each month. Its role is to help you to plan your expenditure so that bills can be paid on time, and to see the impact of these timings on the overall cash position. The cash flow forecast is an important financial and project management tool.

Although your budget may show that your project is viable (your planned income is more than or equal to expenditure), if you receive a grant late you may not be able to pay your staff. This could lead to an early end to your project. Therefore, looking at the timing of money going in and out is vital.

Voluntary organisations sometimes produce two separate cash flows and budgets. The first is a budget and cash flow based on actual confirmed income and expenditure plans for the year. The second is a fully costed budget and cash flow based on all the work that is planned (assuming it gets all the funding required). This becomes more complicated as often the results of funding applications are not known. However, it is important to try to calculate a reasonable timetable and find out from the funders you are applying to how they release funding to successful applicants ie full payment up front; quarterly payments; payment upon completion of work; or meeting targets etc.

### How do I do it?

Cash flows can cover any period of time but are usually done on a monthly or quarterly basis. Set up a table with 12 months as headings along the top, and use your budget headings to put down the side and list your income and expenditure. If you prepare the budget and cash flow in Microsoft Excel you will find it easier to revise your figures after the initial work is completed. It is usual to show 'Revenue' and 'Capital' as separate budget areas. The Treasurer and Finance Officer or Director should be involved in this process.

**Income** – work out when the money is likely to come in. Enter it on your table.

**Expenditure** – work out when you have to pay the bills, salaries/wages and other regular items which cannot usually be delayed. Enter these on your table. For example, you may have to pay the rent each month, but the electricity bill comes in once a quarter.

**Add up the section ‘Income’** for each of the months **(A)** Then add up **‘Expenditure’ (B)**. **Subtract (B) from (A) for each month**. This gives you your monthly expected **Inflow/outflow** for each month.

**Bring forward the monthly balance** (money left over from previous month) and **add to the following month’s balance**. This gives you the **balance carried forward to the next month**.

The balance is  $A - B = C + D$ .

Look to see if the balance at the bottom (‘balance c/fwd’) is positive. If the number is close to zero you will have to keep a close eye on the money going in and out. If the number is a negative amount you will have to plan how you are going to pay the bills (eg arrange to make some payments later; arrange an overdraft facility with the bank; set up a separate bank account for emergencies; chase up any money owing to you).

The key questions to keep in mind regarding income are: How certain is the income that is anticipated, in terms of when and whether it will come in?

### Sample Cash flow:

	April	May	June	July
<b>INCOME</b>				
Grants	10,000			10,000
Bank Interest			100	
Fees		2,000		
<b>A</b>	<b>10,000</b>			
<b>EXPENDITURE</b>				
Wages/Tax	3,200	3,200	3,000	3,000
Rent	500	500	500	500
Electricity		175	1,000	
Insurance		50		
Subscription				
Accountancy				
<b>B</b>	<b>3,700</b>	<b>3,295</b>	<b>4,750</b>	<b>3,500</b>
<b>Total Inflow</b>	6,300	(1,925)	(4,650)	6,500
<b>C</b>				
<b>Bank Balance b/fwd</b>	500	6,800	4,875	225
<b>D</b>				
<b>Balance c/fwd to next month</b>	<b>6,800</b>	<b>4,875</b>	<b>225</b>	<b>6,725</b>

To work out the balance, take expenditure from Income ie  $A - B = C$

The closing balance =  $C + D$  (any money brought forward from the previous month).

### Using Cash flow forecast:

Preventative action will need to be taken if the balance is close to zero, or a negative figure, as there is a deficit. Having determined a likely deficit – or surplus – enables you to look at different scenarios:

- What if income was higher/lower?
- What is (less) income came in earlier or more came in later?
- What if expenditure was more or less?
- Could expenditure be paid earlier (less amount) or (more) later?

The cash flow forecast needs to be 'read' to see which payments can be re-jigged. Some payments cannot be delayed (eg salaries) but it might be possible to move some payments, ie an accountancy charge to a month when the organisation's bank balance is healthy, or by moving training, or purchase of publications or new computer software. It might also be possible to negotiate spreading payments with utilities. Another option might be to draw on reserves, if the organisation has these; or negotiate a bank loan, or to cross-subsidise using income from another of the organisation's projects ('Cost centres') – however this would need to be approved by Trustees, a record kept and the amount replaced as soon as possible.

## Support

If you would like any support with cash flow or any other issues facing your organisation, please contact the Development Team at Community Southwark: [development@communitysouthwark.org.uk](mailto:development@communitysouthwark.org.uk) or 020 7358 7020.

## Resources – Cash

- **The Charity Treasurer's Handbook** by Gareth G Morgan; Directory of Social Change ; <https://www.dsc.org.uk/>; £9.95
- **A Practical Guide to Charity Accounting** edited by Kate Sayer; [www.dsc.org.uk](http://www.dsc.org.uk); £ 18.95
- **A Practical Guide to Financial Management – For Charities & Voluntary Organisations;** by Kate Sayer; [www.dsc.org.uk](http://www.dsc.org.uk); £18.95
- **CASH** [www.cash-online.org.uk](http://www.cash-online.org.uk)
- **Know How Non-Profit:** <http://knowhownonprofit.org/organisation/operations/financial-management/management>