

Financial management

Section five Cash flow

5.1 What is a 'cash flow forecast'?

A cash flow forecast follows on from the budget. Whereas the budget covers one year, the cash flow forecast will break this down into 12 months (or four quarters if the organisation's income is very small). Its role is to balance the money coming into your organisation at different times of the year with the money going out, so that your organisation does not find itself in a situation where it does not have enough money in the bank to pay its bills at the correct time.

Like the budget, the cash flow forecast is a prediction of what will happen. In order to be of use, it needs to be prepared before the beginning of the financial year for which it is intended.

5.2 Preparing a cash flow forecast

When is a cash flow forecast needed?

Always. Particularly if your organisation does not have much money in the bank and/or your income and expenditure are:

- uncertain
- irregular
- regular – by this we mean that although your income and expenditure may be predicted at certain times of the year, when you have to make payments is not when you have the money coming in.

When is a cash flow forecast not needed?

Never. All organisations should prepare a cash flow forecast. In practice your organisation may survive without one if:

- your organisation is very small
- your activities are 'one-off' events during the year, and are self financing
- your organisation has a lot of money readily available in a bank current account

5.3 Forecasting cash flow

If you have done things properly, your budget should tell you what it costs to run your organisation and where the money will come from to pay for this. The next thing you have to do is work out when the money will be **needed** (for example, to pay bills) and when it can be **expected**. This is known as a cash flow forecast.

Headings

Keeping the same headings as in the budget, allocate income and expenditure to the appropriate month. For many of the headings, such as staff salaries or rent, this may be a simple case of dividing by 12, since the amount will be the same each month. However, this will not be true in every instance. For example, grants are often received in instalments; telephone bills usually arrive every three months; your organisation may be more active in the summer months and less in winter; there may be end of year costs associated with the preparing of independently examined accounts and annual reports.

Figure 4 - Sample cash flow forecast

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Income													
Revenue grant	4,500	4,000	2,200	4,500			4,500	2,200		4,500			26,400
Capital grant		2,300											2,300
Membership	600	250				50			50				950
Donations	40	40	40	40	40	40	40	40	40	40	40	40	480
Fundraising				300				400			200		900
Total (A)	5,140	6,590	2,240	4,840	40	90	4,540	2,640	90	4,540	240	40	31,030
Expenditure													
Salary & NI	1,590	1,590	1,590	1,590	1,590	1,590	1,590	1,590	1,590	1,590	1,590	1,590	19,080
Volunteer Exp.	200	200	200	200	200	200	200	200	200	200	200	200	2,400
Training						200				200			400
Rent	1,500						1,500						3,000
Heat & light			150			150			150			150	600
Telephone			400			400			400			400	1,600
Postage	150	150	30	30	30	30	30	150	30	30	30	30	720
Stationery	40	40	40	40	40	40	40	40	40	40	40	40	480
Insurance			250										250
Professional fees				200									200
Office equip.			2,300										2,300
Total (B)	3,480	1,980	4,960	2,060	1,860	2,610	3,360	1,980	2,410	2,060	1,860	2,410	31,030
Net cash flow (A-B)	1,660	4,610	(2,720)	2,780	(1,820)	(2,520)	1,180	660	(2,320)	2,480	(1,620)	(2,370)	-
Opening bank balance		1,660	6,270	3,550	6,330	4,510	1,990	3,170	3,830	1,510	3,990	2,370	-
Closing bank balance	1,660	6,270	3,550	6,330	4,510	1,990	3,170	3,830	1,510	3,990	2,370	-	-

You will notice from the sample in **figure 4** that the opening bank balance is zero. This is, of course, rarely the case, and you should show any money being brought forward from the previous year. Remember, the cash flow forecast is not merely an accounting exercise, but should be a practical tool to help you plan your income and expenditure.

The cash flow forecast allows the organisation to identify possible problems in advance and plan for these. For example, in **figure 4**, we see it is clearly vital that there is no delay in the revenue grants, which are expected to arrive at the beginning of the financial year. Failure to receive the first instalment, due in April, would mean that the organisation would not be able to pay the staff salary or the rent. A delay in the capital grant is perhaps less problematic, but would mean having to delay buying the office equipment, scheduled for June.

The preparation and use of cash flow forecasts enables an organisation to take control of its finances, avoid crises (which often result in bank charges) and helps to create a stable financial base on which the organisation can build.

Using your cash flow forecast

Once you have a prepared cash flow, you can use it in three ways:

1. As each month passes, you can replace the budgeted figures with actual figures.
2. You can set up your cash flow spreadsheet to always look 12 months ahead – simply delete the past and add the future. This way your management committee (MC) will always be able to see 12 months ahead.
3. You can amend your predictions at least once a month to always have a best estimate of your cash flows in the months ahead.

Good practice:

- The cash flow forecast should be referred to regularly, and should form the basis of monthly finance reports to the MC (see **Section nine on finance reports**). In this way, your organisation will be able to plan its spending more accurately and not find itself in a situation where the arrival of a number of bills causes panic.
- If you can see in advance that a particular month will be difficult, your organisation should think about adapting your spending plans, organise fundraising activities or apply for a short term bank loan.
- Similarly, if there are some months when your organisation has a large surplus, you can arrange for this to be maintained in a savings account and earn some interest.

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