

# An introduction to cashflow forecasting for small charities



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We work with small and medium organisations with big ambitions

# How to stop worrying and learn to love finance

Embrace Finance is a non-profit organisation working with charities and social enterprises to build financial sustainability by building financial confidence



# Today

- What we talk about when we talk about cashflow forecasting
  - What?
  - Why?
  - How?
  - So what? Now what?



What is it?

# What is cashflow forecasting?

It's the process of predicting our future cash balances to make sure that we can continue to meet payments as they fall due



# It's what we do ...

- When we are starting a new organisation
- When bank balances are low
- When the budget predicts a low surplus/deficit
- When things change
- When there is uncertainty





# So that we can remain compliant

It is an offence to trade when there is no cash to trade with

It is an offence to misuse funds by spending cash on items which sit outside of a restriction





# So that we can remain operational

So that we can keep the lights on

So that we know when we will run out of cash and can no longer pay staff and deliver services and we can work to avoid this in good time to do no harm



# What is the difference between a budget and a cashflow forecast?

A budget predicts **how much** total income we expect to earn and the total expenditure we expect to incur **in a given period**.

A **cashflow forecast** predicts **when** this income and expenditure will **hit our bank account**.

Often there are items in the budget or bookkeeping system which are not in the cashflow forecast. However, in small organisations, cashflow and budgets are often the same.



# What else?

The good news:

1. Cashflow forecasting doesn't need a deep knowledge of accounting principles
2. Most of us need to monitor cash in our personal lives; we are all in some senses cash flow experts
3. The best cashflow forecast can only be done by people that know and love the organisation, i.e. you
4. When dealing with uncertainty we are, at best, just modelling different possible futures



# How do we do it? | The Mechanics

# Understanding the spreadsheet mechanics

A cashflow forecast is best done in excel. There is a standard template. It looks like this.

	<b>BUDGET</b>	<b>CASHLOW</b>			
<b>INCOME</b>	<b>£</b>	<b>May</b>	<b>June</b>	<b>July</b>	<b>Total</b>
Donations	£4,500	£1,500	£1,500	£1,500	£4,500
Grants	£1,000			£1,000	£1,000
<b>Total income</b>	<b>£5,500</b>	<b>£1,500</b>	<b>£1,500</b>	<b>£2,500</b>	<b>£5,500</b>
<b>EXPENDITURE</b>					
Rent	£1,000	£333	£333	£333	£1,000
Accountancy fees	£2,000	£2,000	£0	£0	£2,000
<b>Total Expenditure</b>	<b>£3,000</b>	<b>£2,333</b>	<b>£333</b>	<b>£333</b>	<b>£3,000</b>
<b>Surplus/(Deficit)</b>	<b>£2,500</b>	<b>-£833</b>	<b>£1,167</b>	<b>£2,167</b>	<b>£2,500</b>
Cash opening balance	£500	£500	-£333	£833	
Cash closing balance	£3,000	-£333	£833	£3,000	

# Understanding the spreadsheet mechanics

How the spreadsheet works

1. We start with our income and expenditure categories
2. We enter our budget in the usual format
3. We allocate the budget to the cashflow forecast in line with our expectations/best estimates
4. We add a total column to our cashflow forecast
5. We add our opening bank balance for M1
6. We calculate the closing balance (opening balance plus income less expenditure)
7. We use the closing balance of M1 as the opening balance of M2

	<b>BUDGET</b>	<b>CASHFLOW</b>			
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<b>Surplus/(Deficit)</b>	<b>£2,500</b>	<b>-£833</b>	<b>£1,167</b>	<b>£2,167</b>	<b>£2,500</b>
Cash opening balance	£500	£500	-£333	£833	
Cash closing balance	£3,000	-£333	£833	£3,000	



# How do we do it? | The Numbers

# Understanding the numbers

How to phase the budgeted income and expenditure in the cashflow forecast:

We either allocate the full budget amount if the entire amount is coming out in one go

Or we apportion it by month by month

The timings and the amounts will be based on our activity plans and in line with our best expectations at this time

	<b>BUDGET</b>	<b>CASHFLOW</b>			
<b>INCOME</b>	<b>£</b>	<b>May</b>	<b>June</b>	<b>July</b>	<b>Total</b>
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Cash opening balance	£500	£500	-£333	£833	
Cash closing balance	£3,000	-£333	£833	£3,000	

# Understanding the numbers

How to add the opening bank balance:

The opening bank balance comes from our bank statement. It's best to start from the beginning of the month.

The closing bank balance is the sum of the opening balance plus the surplus or deficit:

Opening Balance + Surplus = Closing Balance

The closing balance for M1 is the opening balance for M2

	BUDGET	CASHFLOW			
	£	May	June	July	Total
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Donations	£4,500	£1,500	£1,500	£1,500	£4,500
Grants	£1,000			£1,000	£1,000
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<b>Cash opening balance</b>	<b>£500</b>	<b>£500</b>	<b>-£333</b>	<b>£833</b>	
<b>Cash closing balance</b>	<b>£3,000</b>	<b>-£333</b>	<b>£833</b>	<b>£3,000</b>	

# Understanding the numbers

How to check that the numbers are complete:

The budget totals match the cashflow totals

And

The closing cash position on the budget column matches the total cash balance on the cashflow

This will tell you the numbers are complete. It won't tell you whether the numbers are accurate

	<b>BUDGET</b>	<b>CASHFLOW</b>			
	£	May	June	July	Total
<b>INCOME</b>					
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Grants	£1,000			£1,000	£1,000
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# An example

My Shed is Blue trains people with convictions in carpentry to build their employability.

The organisation is young but successful and has its own workshop on an industrial estate in East London.

## Payments

£3,000	Rent
£1,500	Accountancy fees
£800	Insurance fees
£600	Heat and light

## Receipts

£10,000 grant  
£700 per month proceeds from shed sales

Their opening bank balance is £100.

What does their monthly cashflow forecast look like for the next 6 months?



# Step 1 | We get our template and add our budget

MY SHED IS BLUE	ASSUMPTIONS	BUDGET	CASHFLOW						
INCOME			Jan	Feb	Mar	Apr	May	June	Total
LA employability grant		£10,000							
Shed sales		£4,200							
<b>Total income</b>		<b>£14,200</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>
<b>EXPENDITURE</b>									
Rent		£3,000							
Accountancy fees		£1,500							
Insurance		£800							
Heat and Light		£600							
<b>Total Expenditure</b>		<b>£5,900</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>
<b>Surplus/(Deficit)</b>		<b>£8,300</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>
<b>Cash opening balance</b>		<b>£100</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	
<b>Cash closing balance</b>		<b>£8,400</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	



# Step 2 | We update our cashflow

MY SHED IS BLUE	ASSUMPTIONS	BUDGET	CASHFLOW						
INCOME			Jan	Feb	Mar	Apr	May	June	Total
Grants	LA £10k	£10,000						£10,000	£10,000
Sales	One per month x 6m	£4,200	£700	£700	£700	£700	£700	£700	£4,200
<b>Total income</b>		<b>£14,200</b>	<b>£700</b>	<b>£700</b>	<b>£700</b>	<b>£700</b>	<b>£700</b>	<b>£10,700</b>	<b>£14,200</b>
EXPENDITURE									
Rent	In advance / qtr	£3,000	£1,500			£1,500			£3,000
Accountancy fees	Monthly	£1,500	£250	£250	£250	£250	£250	£250	£1,500
Insurance	Monthly	£800	£133	£133	£133	£133	£133	£133	£800
Heat and light	Monthly	£600	£100	£100	£100	£100	£100	£100	£600
<b>Total Expenditure</b>		<b>£5,900</b>	<b>£1,983</b>	<b>£483</b>	<b>£483</b>	<b>£1,983</b>	<b>£483</b>	<b>£483</b>	<b>£5,900</b>
<b>Surplus/(Deficit)</b>		<b>£8,300</b>	<b>-£1,283</b>	<b>£217</b>	<b>£217</b>	<b>-£1,283</b>	<b>£217</b>	<b>£10,217</b>	<b>£8,300</b>
<b>Cash opening balance</b>		<b>£100</b>	<b>£100</b>	<b>-£1,183</b>	<b>-£967</b>	<b>-£750</b>	<b>-£2,033</b>	<b>-£1,817</b>	
<b>Cash closing balance</b>		<b>£8,400</b>	<b>-£1,183</b>	<b>-£967</b>	<b>-£750</b>	<b>-£2,033</b>	<b>-£1,817</b>	<b>£8,400</b>	



So what? Now what?

# So what?

- What need to look at what the numbers telling us
- Does the budget predict a surplus or (deficit)?
- Is the cashflow forecast predicting positive balances?
- Have we tested our assumptions? What happens if ....?
- If we expect negative balances, when and for how long?



# Now what?

- We need to decide what to do based on the numbers
- Is corrective action needed?
- Do we need to arrange to pay some bills later?
- Can we bring income forward?
- How can we change our plans to maintain our solvency?
- What else can we do? Overdraft? Loan?
- Who do we need to bring into this conversation?
  - Trustees? Funders? Professional advice?



# Now what?

MY SHED IS BLUE	ASSUMPTIONS	BUDGET	CASHLOW						
INCOME			Jan	Feb	Mar	Apr	May	June	Total
Grants	LA £10k due Dec	£10,000						£10,000	£10,000
Sales	One per month x 6m	£4,200	£700	£700	£700	£700	£700	£700	£4,200
<b>Total income</b>		<b>£14,200</b>	<b>£700</b>	<b>£700</b>	<b>£700</b>	<b>£700</b>	<b>£700</b>	<b>£10,700</b>	<b>£14,200</b>
EXPENDITURE									
Rent	In advance / qtr	£3,000	£1,500			£1,500			£3,000
Accountancy fees	Monthly	£1,500	£250	£250	£250	£250	£250	£250	£1,500
Insurance	Monthly	£800	£133	£133	£133	£133	£133	£133	£800
Heat and light	Monthly	£600	£100	£100	£100	£100	£100	£100	£600
<b>Total Expenditure</b>		<b>£5,900</b>	<b>£1,983</b>	<b>£483</b>	<b>£483</b>	<b>£1,983</b>	<b>£483</b>	<b>£483</b>	<b>£5,900</b>
<b>Surplus/(Deficit)</b>		<b>£8,300</b>	<b>-£1,283</b>	<b>£217</b>	<b>£217</b>	<b>-£1,283</b>	<b>£217</b>	<b>£10,217</b>	<b>£8,300</b>
<b>Cash opening balance</b>		<b>£100</b>	<b>£100</b>	<b>-£1,183</b>	<b>-£967</b>	<b>-£750</b>	<b>-£2,033</b>	<b>-£1,817</b>	
<b>Cash closing balance</b>		<b>£8,400</b>	<b>-£1,183</b>	<b>-£967</b>	<b>-£750</b>	<b>-£2,033</b>	<b>-£1,817</b>	<b>£8,400</b>	



# What happens if?

	<b>BUDGET</b>	<b>CASHLOW</b>						
<b>INCOME</b>		Jan	Feb	Mar	Apr	May	June	Total
Grants	£10,000	£10,000						£10,000
Sales	£4,200	£700	£700	£700	£700	£700	£700	£4,200
<b>Total income</b>	<b>£14,200</b>	<b>£10,700</b>	<b>£700</b>	<b>£700</b>	<b>£700</b>	<b>£700</b>	<b>£700</b>	<b>£14,200</b>
<b>EXPENDITURE</b>								
Rent	£3,000	£1,500			£1,500			£3,000
Accountancy fees	£1,500	£250	£250	£250	£250	£250	£250	£1,500
Insurance	£800	£133	£133	£133	£133	£133	£133	£800
Heat and light	£600	£100	£100	£100	£100	£100	£100	£600
<b>Total Expenditure</b>	<b>£5,900</b>	<b>£1,983</b>	<b>£483</b>	<b>£483</b>	<b>£1,983</b>	<b>£483</b>	<b>£483</b>	<b>£5,900</b>
<b>Surplus/(Deficit)</b>	<b>£8,300</b>	<b>£8,717</b>	<b>£217</b>	<b>£217</b>	<b>-£1,283</b>	<b>£217</b>	<b>£217</b>	<b>£8,300</b>
<b>Cash opening balance</b>	<b>£100</b>	<b>£100</b>	<b>£8,817</b>	<b>£9,033</b>	<b>£9,250</b>	<b>£7,967</b>	<b>£8,183</b>	
<b>Cash closing balance</b>	<b>£8,400</b>	<b>£8,817</b>	<b>£9,033</b>	<b>£9,250</b>	<b>£7,967</b>	<b>£8,183</b>	<b>£8,400</b>	

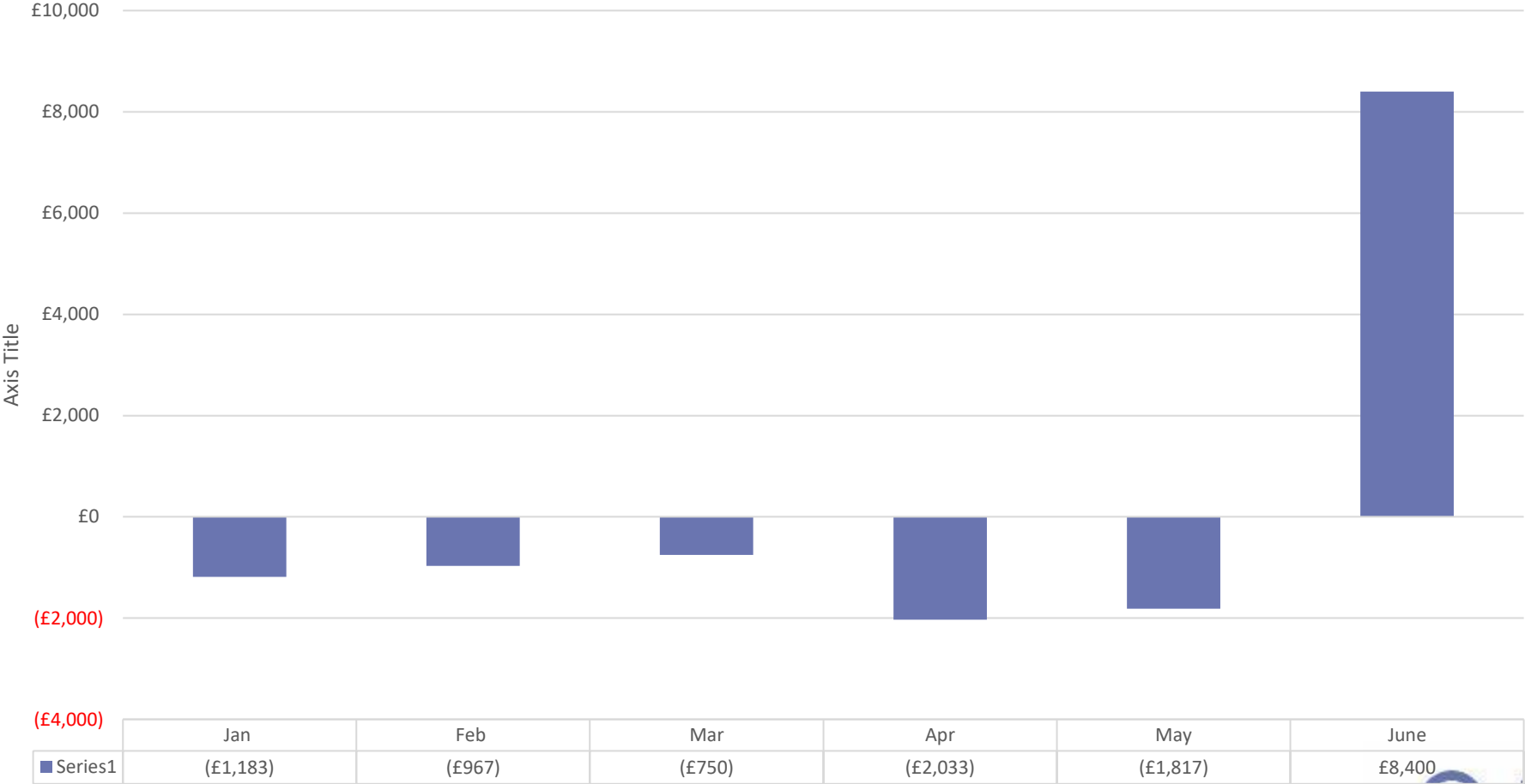
# Presenting the cashflow forecast | Include a narrative

1. My Shed is Blue has set a budget which aims to turn a surplus of £8,300 in the six months from April
2. When we forecast the future cash balances we can see that it will have significant cashflow challenges with negative balances (peaking at c£2k in xx month)
3. This is largely due to the grant from the local authority not being due until June 2020
4. We need to take corrective action to remain solvent
5. We have scheduled a call with the local authority to discuss bringing the grant forward
6. In the meantime, we have arranged a temporary overdraft with the bank



# A picture tells a thousand words

Predicted cash balances  
Jan - June 2020



# Top tips

1. As we proceed through the year, we need to keep the template updated as we go
2. Therefore, at the end of each month we check the closing bank on our forecast is the same as our bank statement
3. Then we check that what is included in our cashflow matches that in our bank statement and update our cashflow accordingly



# A note on managing financial difficulties

1. Cashflow challenges can lead to financial difficulties
2. It is easy to act with good intention and still act unlawfully
3. Always get advice where necessary
4. We need to act decisively and swiftly
5. The Charity Commission has guidance on this
6. [CC12 Managing Financial Difficulty](#)





# Useful resources

Cashflow Forecasting Step by Step Guide

<https://www.embracefinance.org.uk/somethoughts>

Managing Financial Difficulties

<https://www.gov.uk/government/publications/managing-financial-difficulties-insolvency-in-charities-cc12>

NCVO

<https://www.ncvo.org.uk/help-and-guidance/running-a-charity/financial-management/financial-difficulty-and-insolvency/#/>



Not all heroes wear capes, some build  
resilience charities







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Building confident charities