INFORMATION SHEET 5.2

CASH FLOW FORECASTS

WHAT IS A CASH FLOW FORECAST?

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:

- 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
- 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 (VODA's Finance Team can help, Contact us on 0191 643 2626 for more information).

1. 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.

2. 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.

3. 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.

If any of the closing balances are negative, you'll have to plan how you'll manage your outgoings. 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.

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4. 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.

For one-to-one practical support and advice on book keeping and financial management contact VODA's Finance Team on 0191 323 2040 or email finance@voda.org.uk.