"Cash Flow Forecasting during a Cost of Living Crisis

Marie Langan
Regional Manager for the South West
11 January 2024

Cranfield Trust

What we do

We provide a range of pro bono support to small to medium size social welfare charities, and free online learning resources

- Management Consultancy
- Mentoring
- Peer to Peer Support via P2P Exchanges
- Learning events: masterclasses + webinars
- Telephone advice via Cranfield Trust On-Call
- Sharing knowledge + insight

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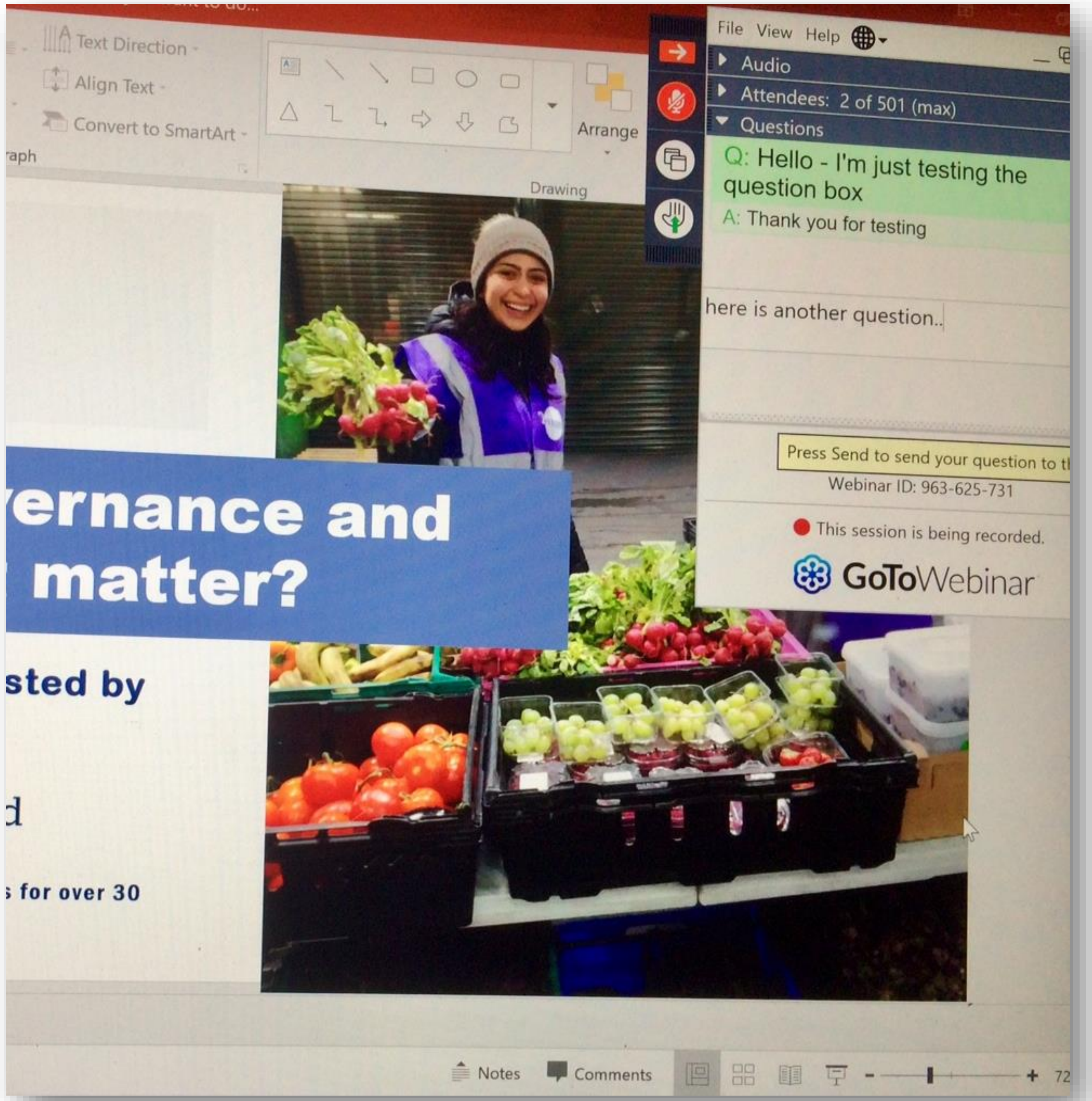
Welcome to our webinar



- Please use the question box to ask questions.
- Everyone is muted during this webinar
- Recording and slides will be shared

Introduction – Marie Langan

- Cranfield Trust Regional Manager for the South West
- Chartered Accountant with 35 years of experience in accounting, audit, project management, risk management and business development
- Board experience at a Bristol law centre charity
- Audit experience of charities in the UK and US

Upfront

- Finance can be overwhelming – today we are focussing on cash flow forecasting
- Demo of some practical suggestions
- Sorry if we cover some basic concepts
- We will try not to use too much jargon!
- I'll be using "charity" to mean all not for profit entities
- Please ask questions as we go along
- Please feel free to suggest answers from your own experience
- It would be a great outcome from today if we can share knowledge to help build each other's confidence with forecasting!

Our agenda today – key finance tools

- Budgeting
- Cash flow forecasting
- Financial controls and policies
- Communicating financial information to the board
- Do we have the cash to meet our obligations as they fall due?
- If not, what is the gap, and how will we close that gap?

The Big Picture

- Triple threat of the Cost of Living crisis
  - Rising need for services, especially as public services come under more strain – food banks, mental health support, domestic violence, care sector
  - Increased operating costs - inflation, rising energy bills, wage increases
  - Decreased income from personal donors as they struggle to meet household bills, and from funders, as there is more competition to secure grant funding

- CAF Bank research in 2023 found that
  - 40% of charities relied on their reserves to help get through the last two years
  - one in seven regular donors are considering cutting back on donations in the next six months
  - and one in 10 say they have already chosen not to make a one-off donation - equivalent to around 4.9 million people in total

Thoughts … and keeping them positive during a crisis

- We have up to 60,000 conscious & unconscious thoughts daily
- They are not always correct or factual, and it's estimated that 80% are negative!
- Many of these are also repeated over and over so they can feel very factual
- You may have negative thoughts about the cost of living crisis:
- "We'll never be able to afford that" … "We won't survive" … "Everyone will judge me if I spend money at a time like this…"
- Thoughts turn to feelings and these turn to behaviour and actions
- Cognitive behavioural therapy – CBT – "you are what you think" – let's try to build some positivity into this session
- Think "Maybe" instead of "Never"… Think "We're surviving" … Think "We're not just spending, we're ***investing***"

How can we turn this around?

- Gift Aid
- Cost of Living support - the guidance changed regularly during 2024
- Seek advice / talk to other charities - you are not on your own
- Take advantage of existing relationships with funders and donors – it is 7 X more expensive to recruit new ones
- Negotiate with contract holders, banks, HMRC to extend deadlines
- Check out https://fundsonline.org.uk/ – directory of social change – and the database of funders at https://www.charityexcellence.co.uk/
- Check out pro bono support e.g. Cranfield Trust
- Campaign for more support for charities – open letters end of 2023
  - Charity Commission open letter to UK bank Chief Execs to improve services to charities
  - NVCO's open letter to the Chancellor on vital funding for public services delivered by charities
- Agree what reserves can be accessed and how
- Controlling cash flow!

Cash flow forecasting – *what*, why, how?

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- Cash flow is the name given to the process of money coming in to and out of an organisation
- Controlling cash flow means making sure that cash is available when needed
- **Cash is King** - even if a charity has valuable assets or is budgeted to make a surplus, if it does not have enough cash to pay its debts as they fall due it risks "trading insolvent" which is a crime

- **Revise your existing cash flow forecast (or create one) based on changed circumstances – you will get better at this is you do it regularly!**
- Updated cash flow forecasts give you more accurate information to work with, enabling you to make timely decisions: making changes is better done in a planned, supported way than in a crisis

Poll #1

- Do you already prepare a cash flow forecast (or projection) as part of your monthly accounting pack?

  - Yes
  - No
  - Not sure / not routinely

Cash flow forecasting – what, *why*, how?

- Why is it particularly important for charities?
  - complex funding environment - unrestricted, restricted, designated; projects & programmes; short term etc.
  - income is lumpy and uncertain and can be restricted
  - we need to maintain levels of reserves for future operations
  - we don't necessarily have access to finance options that corporates have
  - we need to demonstrate good stewardship of funds to stakeholders
  - need to spot opportunities to grow to meet demand

Budget versus cash flow forecast

- A budget is “the quantification of a strategically-aligned plan, for a defined period of time, which includes planned sales volumes and revenues, resource quantities, costs and expenses (CIMA)” – it will show a specific surplus or deficit at the end of that period - it is generally fixed and you compare performance to it as the year goes on

- A cash flow forecast on the other hand focusses purely on the cash that will flow in and out of your organisation based on the activities outlined in the budget, and exactly WHEN those flows occur. Certain transactions are “non-cash” transactions and will feature in a budget but NOT in a cash flow, e.g. depreciation. You will generally adjust a cash flow forecast regularly as it keeps changing!

Cash flow forecasting – what, why, *how*?

- Like the budget, your cash flow forecast needs to use the same categories as your income & expenditure statement (P&L) in your management accounts
- **Don't forget to add "on costs" to salary** – payroll taxes, NI contributions, pension, payroll provider fee – these are usually paid in the following month
- Show receipts of money when you expect to receive them – be realistic
- Don't forget to add any new income streams or expense categories
- Don't leave anything out however small, e.g. postage, utilities, as they may become more significant
- Include VAT – if you can claim it back you can include that as a future cash inflow
- ***"Enough precision for the decision"***

What does a good cash flow forecast look like?

- Rolling cash forecast – 2/3 years, by month – as each month ends, add another
  - Cash inflows – grants, donors, contracts, sales, membership dues, VAT refunds
  - Cash outflows – by category
  - Opening and closing cash balance(s)
  - **2 scenarios if necessary – plan A and plan B**
  - **Consider doing a very detailed 3 or 6 month forecast and the remaining months in less detail**
  - There is no standard format for a cash flow forecast – not like year end accounts where the format is dictated by the accounting SORP
  - Your accounting package may have a cash flow / projection function, otherwise Excel is fine!

Insert comments to explain cells where needed – assumptions, explanations

Remember to exclude transactions that are NOT cash flows **– e.g. depreciation**

Example cash flow forecast using Excel

- Only one year (so that it fits on the slide!) - January to December
- Shows the annual budget as well as the cash flows for the year, to demonstrate that you can forecast a surplus in the budget but still have periods during the year where cash balances are overdrawn
- In our example we will "go overdrawn" three times in the coming year
- We will look at what we can do to resolve the situation – costs of £15,000 that can be managed differently
- The earlier you are aware of a cash flow problem the better!
- Create a "combo" chart using Excel to show cash flows in and out of the organisation ***and*** the ending cash balance by month
- Ask a colleague to review your cash flow forecast – 2 heads are better than one!

Cash flow 1 – in the red months 1, 2 & 8

	Budget for the year	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Total
Income														
Grants	96,000			46,000						50,000				96000
Fees and Charges	182,000	15,166.67	15,166.67	15,166.67	15,166.67	15,166.67	15,166.67	15,166.67	15,166.67	15,166.67	15,166.67	15,166.67	15,166.67	182000
Events	50,000				25,000					25,000				50000
Total in	328,000	15,167	15,167	61,167	40,167	15,167	15,167	15,167	15,167	90,167	15,167	15,167	15,167	328000
Expenses														
Staff Costs	165,000	13,750	13,750	13,750	13,750	13,750	13,750	13,750	13,750	13,750	13,750	13,750	13,750	165000
Office Costs	40,000	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	40000
Premises Costs	60,000	15,000			15,000			15,000			15,000			60000
Publicity and Fundraising	15,000	10,000						5,000						15000
Information & Support Work	24,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24000
Administration	15,000	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	15000
Total out	319,000	45,333	20,333	20,333	35,333	20,333	20,333	40,333	20,333	20,333	35,333	20,333	20,333	319000
Net in or out in the month	9,000	-30,167	-5,167	40,833	4,833	-5,167	-5,167	-25,167	-5,167	69,833	-20,167	-5,167	-5,167	
Cash balance at the start of the month		29,560	-607	-5,773	35,060	39,893	34,727	29,560	4,393	-773	69,060	48,893	43,727	
Cash balance at the end of the month		-607	-5,773	35,060	39,893	34,727	29,560	4,393	-773	69,060	48,893	43,727	38,560	

Close up of the bank balances

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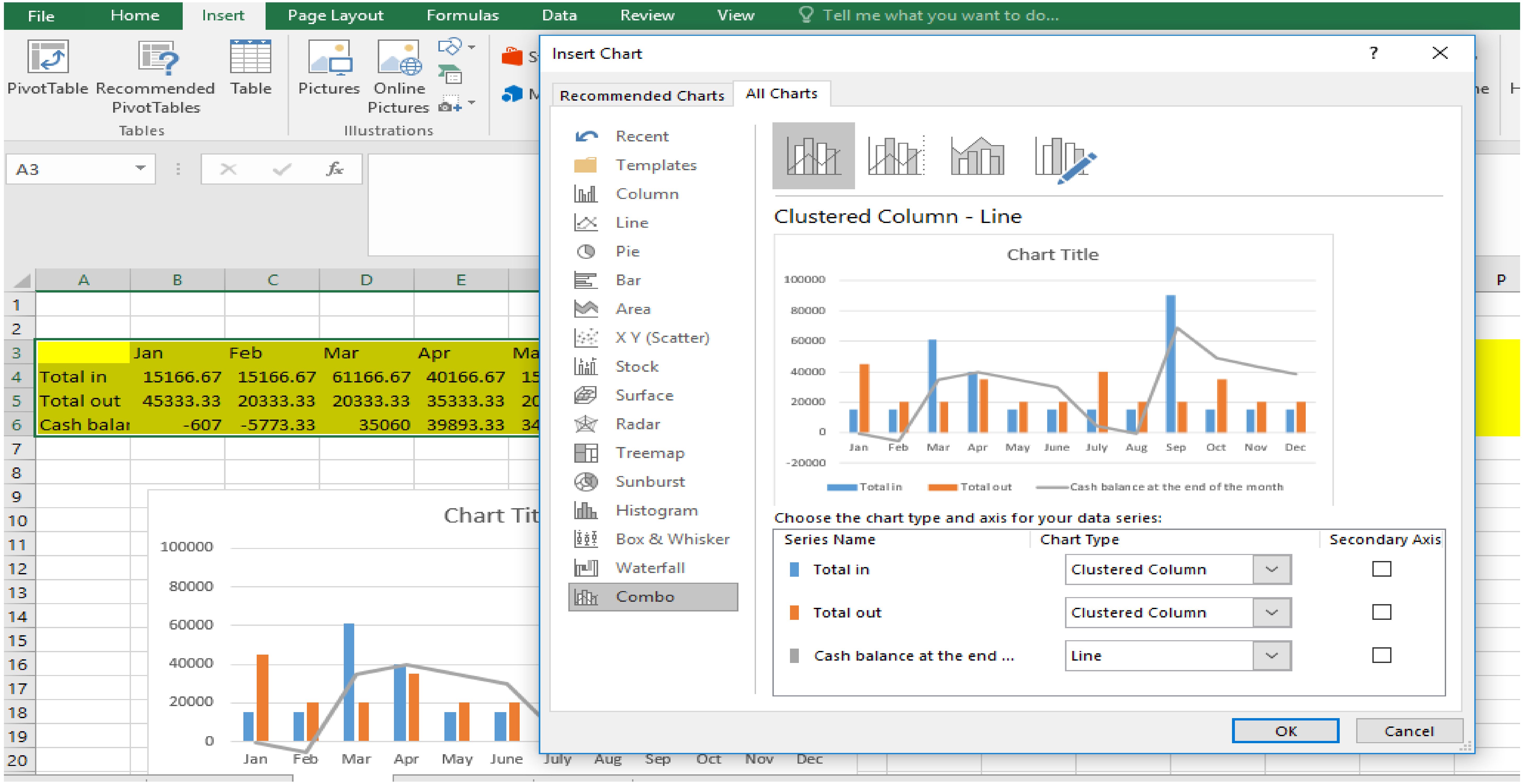
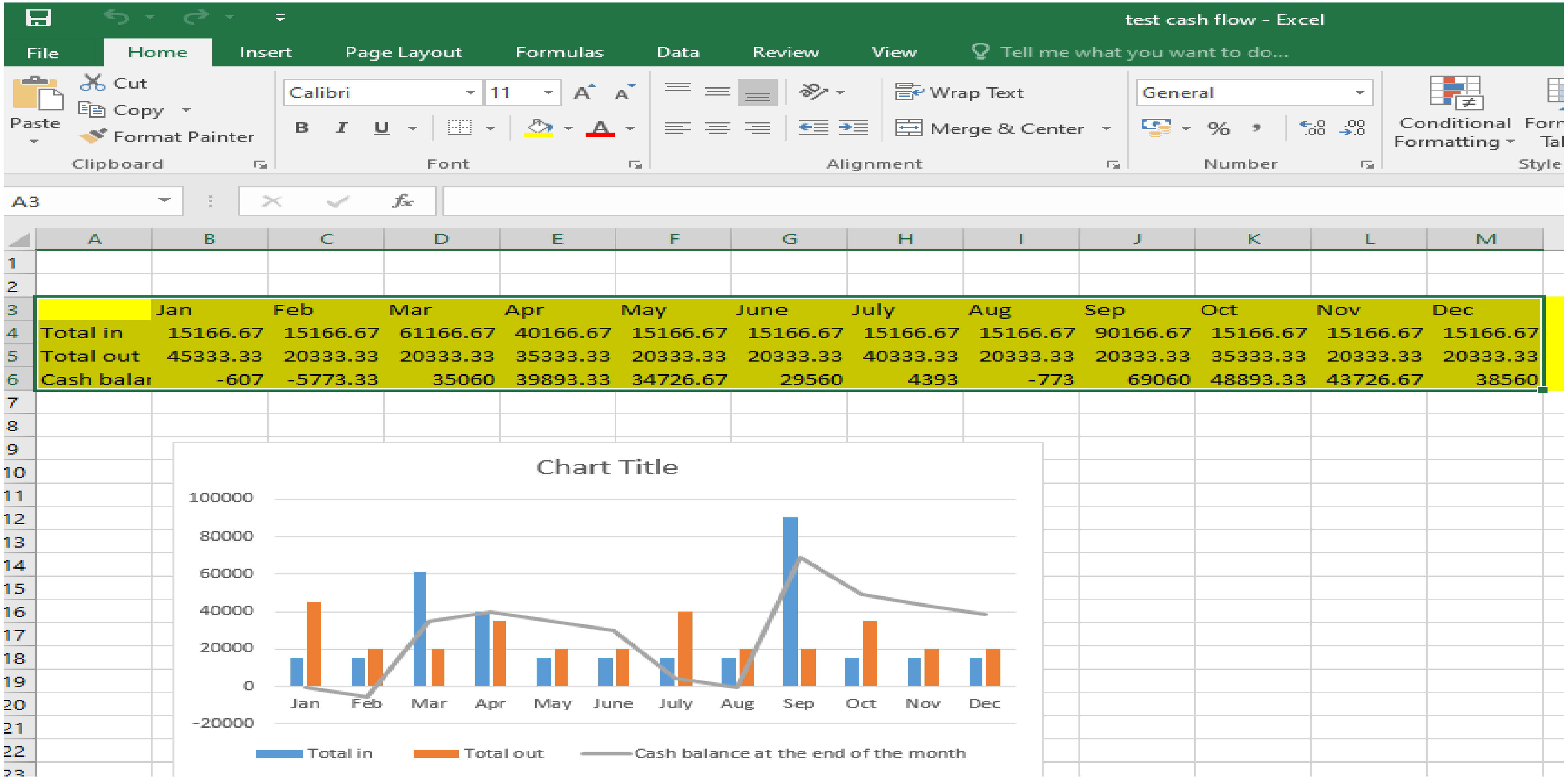
9						
10	**Expenses**					
11	Staff Costs	165,000	13,750	13,750	13,750	13
12	Office Costs	40,000	3,333	3,333	3,333	3
13	Premises Costs	60,000	15,000			15
14	Publicity and Fundraising	15,000	10,000			
15	Information & Support Work	24,000	2,000	2,000	2,000	2
16	Administration	15,000	1,250	1,250	1,250	1
17	**Total out**	**319,000**	**45,333**	**20,333**	**20,333**	**3**
18						
19	**Net in or out in the month**	**9,000**	**-30,167**	**-5,167**	**40,833**	**4**
20	**Cash balance at the start of the month**		**29,560**	**-607**	**-5,773**	**3**
21	**Cash balance at the end of the month**		**-607**	**-5,773**	**35,060**	**3**
22						

Creating a “Combo Chart” in Excel

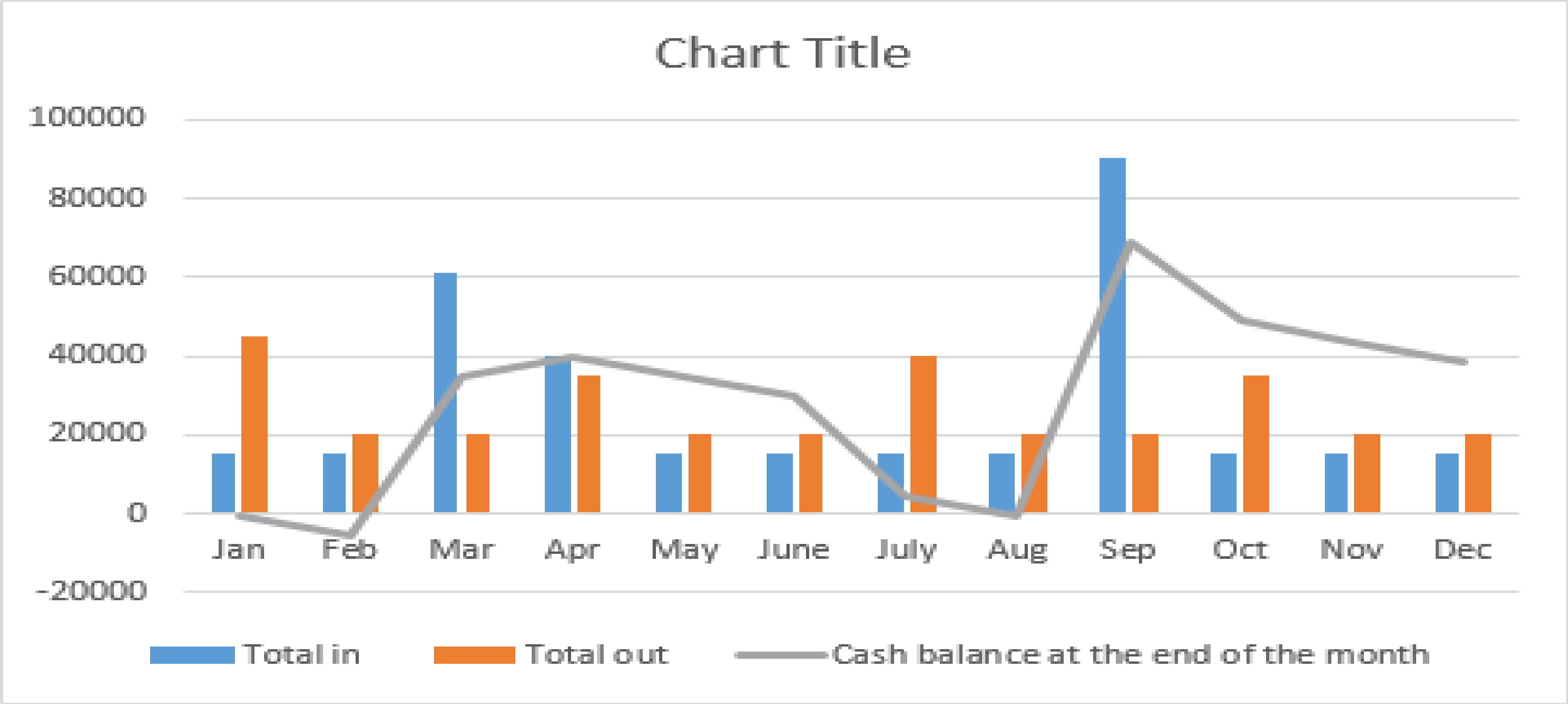


The data needed to make the chart



	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec
Total in	15166.67	15166.67	61166.67	40166.67	15166.67	15166.67	15166.67	15166.67	90166.67	15166.67	15166.67	15166.67
Total out	45333.33	20333.33	20333.33	35333.33	20333.33	20333.33	40333.33	20333.33	20333.33	35333.33	20333.33	20333.33
Cash balar	-607	-5773.33	35060	39893.33	34726.67	29560	4393	-773	69060	48893.33	43726.67	38560

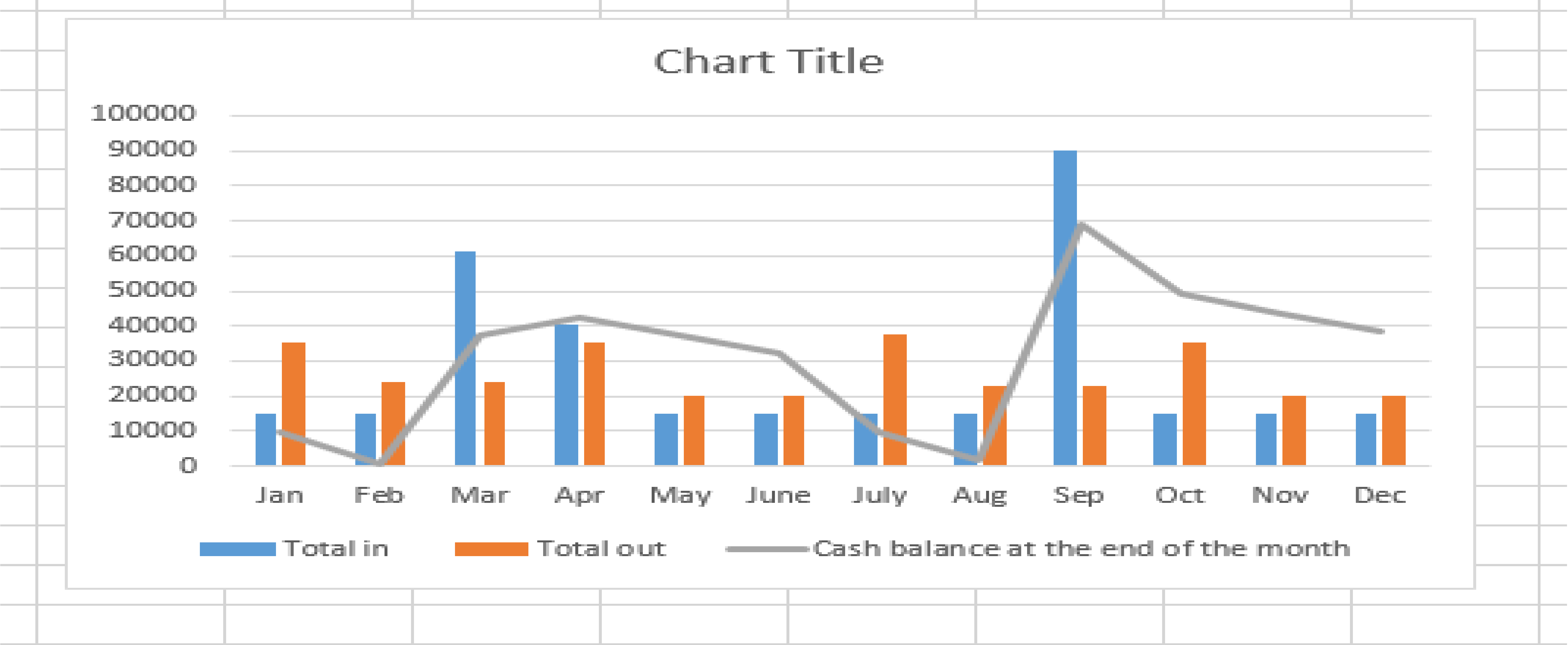
Cash flow 1 – Combo Chart



Cash flow 2 – adjust timing of publicity & fundraising costs to stay in the black

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
1															
2		Budget for the year	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Total
3															
4	**Income**														
5	Grants	96,000			46,000						50,000				96000
6	Fees and Charges	182,000	15,166.67	15,166.67	15,166.67	15,166.67	15,166.67	15,166.67	15,166.67	15,166.67	15,166.67	15,166.67	15,166.67	15,166.67	182000
7	Events	50,000				25,000					25,000				50000
8	Total in	328,000	15,167	15,167	61,167	40,167	15,167	15,167	15,167	15,167	90,167	15,167	15,167	15,167	328000
9															
10	**Expenses**														
11	Staff Costs	165,000	13,750	13,750	13,750	13,750	13,750	13,750	13,750	13,750	13,750	13,750	13,750	13,750	165000
12	Office Costs	40,000	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	3,333	40000
13	Premises Costs	60,000	15,000			15,000			15,000			15,000			60000
14	Publicity and Fundraising	15,000		3,750	3,750				2,500	2,500.00	2,500.00				15000
15	Information & Support Work	24,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24000
16	Administration	15,000	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	15000
17	Total out	319,000	35,333	24,083	24,083	35,333	20,333	20,333	37,833	22,833	22,833	35,333	20,333	20,333	319000
18															
19	Net in or out in the month	9,000	-20,167	-8,917	37,083	4,833	-5,167	-5,167	-22,667	-7,667	67,333	-20,167	-5,167	-5,167	
20	Cash balance at the start of the month		29,560	9,393	477	37,560	42,393	37,227	32,060	9,393	1,727	69,060	48,893	43,727	
21	Cash balance at the end of the month		9,393	477	37,560	42,393	37,227	32,060	9,393	1,727	69,060	48,893	43,727	38,560	
22															

Revised Combo Chart!



How to use your cash flow forecast

- Focus on the next 12 months in terms of immediate "going concern" issues
- Essential monthly report for the CEO, treasurer, Board & finance committee
- Tells you when you will experience a cash flow pinch point, and why
- Who is the forecast for? For you: it is not required in financial statements
- Be prudent, don't count anything in income that you don't have contractual support for, or a justifiable forecast/budget
- Be realistic – the cash flow model needs to have built-in limitations – e.g. don't assume that you can operate 7 days a week if you are only open 5 days, or that you are able to provide 10 hours of counselling a day if you can only offer 6
- **START NOW** - it's better to know bad news sooner rather than later because you have time to devise a plan to get you out of trouble, which is more likely to work if you have more time to work on it!

How often should you revise your forecast?

- Daily/weekly if you are in financial trouble; if cash flow is very seasonal you may need to look at it more regularly at certain times of the month/year
- Normally, revising monthly should be enough
- Forecast is ALL FUTURE INFO i.e. best estimates, except for the starting cash balance, which is updated to actual every month
- Use the true cash balance – the one on the bank statement, not the one in the management accounts
- What's the difference? The bank balance is confirmed by a bank – it's external. Your bank reconciliation reconciles the balance per the bank to the balance on your books – these may differ if payments or receipts haven't cleared (e.g. cheques), although this happens less now due to online banking

More “what, why, how”

- Forecast as far as you need to – however, the further ahead you look the less accurate the numbers because it’s more remote
- Build in a rise in the cost of living / prices for years 2 and 3
- The next month’s forecast should be very close to actual as you know the starting point and what the likely costs and income will be
- Unforeseen events can’t be built in to your forecast but you can build in a contingency based on your previous experience of variances
- Remember: “Turnover is vanity, profit is sanity but **CASH IS KING”** – ensuring that cash is available when needed to pay wages, suppliers etc. is more important than ensuring that you are making a surplus / profit

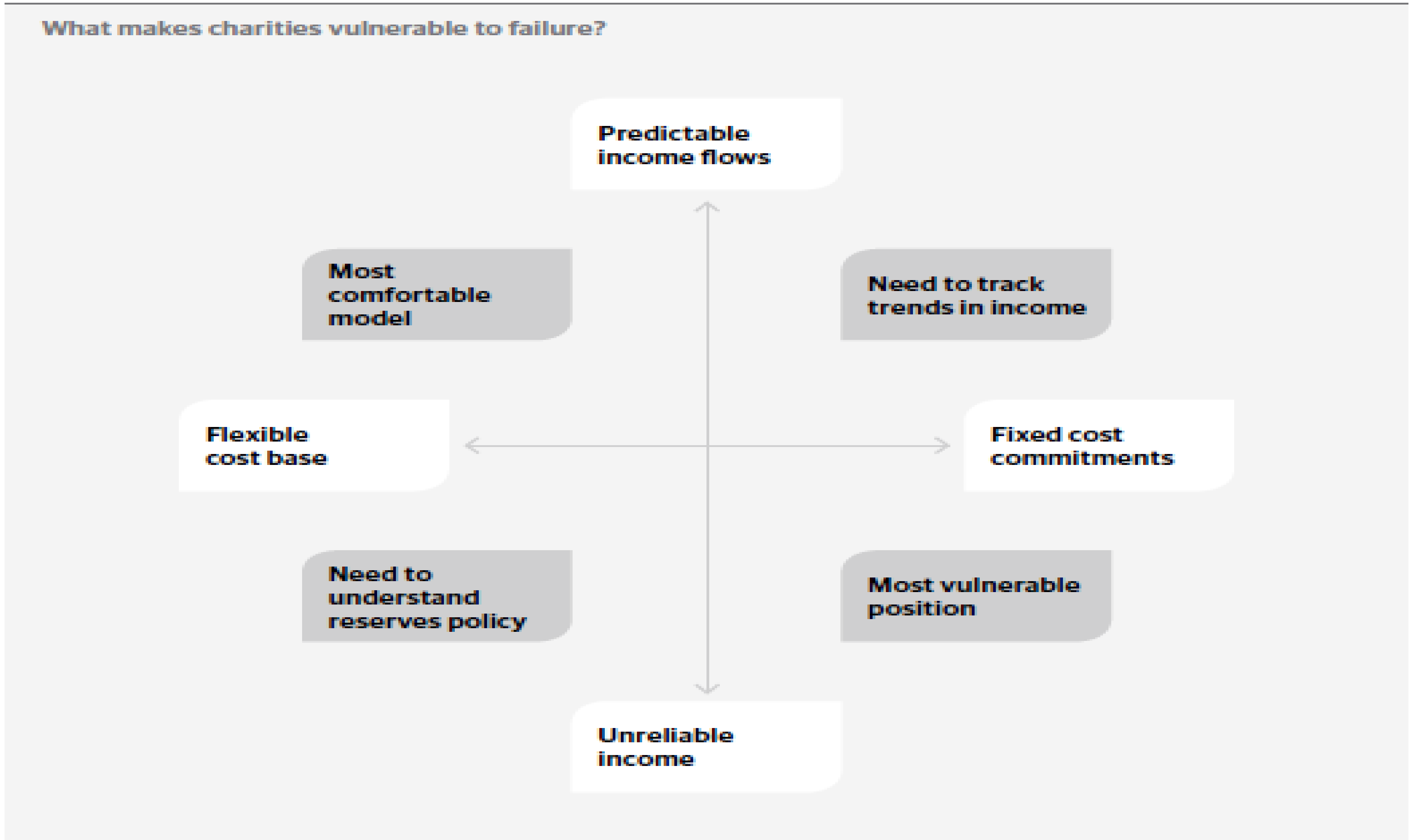
Tips for future sustainability

- Build long term financial planning in to your annual review of strategy
- Build a rolling cash flow forecast into monthly management accounts – good management information includes information about **cash *flows*** as well as **cash *balances***
- Use the right people, use the right tools
- Document your assumptions
- Set up two "what if" scenarios if necessary – for example, if you are launching a new event or service
  - Scenario A – sell 40 places at £30 = £1,200
  - Scenario B – sell 55 places at £25 = £1,375
- Keep it simple and agile – circumstances will change
- Make sure your planning is realistic with regard to external factors – scan the horizon for news

Tips for future sustainability

- Resilience – creating accurate budgets and operating within them
- Striking the balance between spending money to make an impact and maintaining adequate reserves
- Communicating your charity's position clearly so that funders, banks, clients, staff and other stakeholders know your financial status, and trustees, staff and volunteers know the direction of travel
- Having reliable financial information at your fingertips
- Increased / changed activity can bring about unforeseen consequences

Why do charities fail?



Managing in a Downturn: Staying Solvent and Surviving Well – Directory of Social Change /PwC

Poll # 2

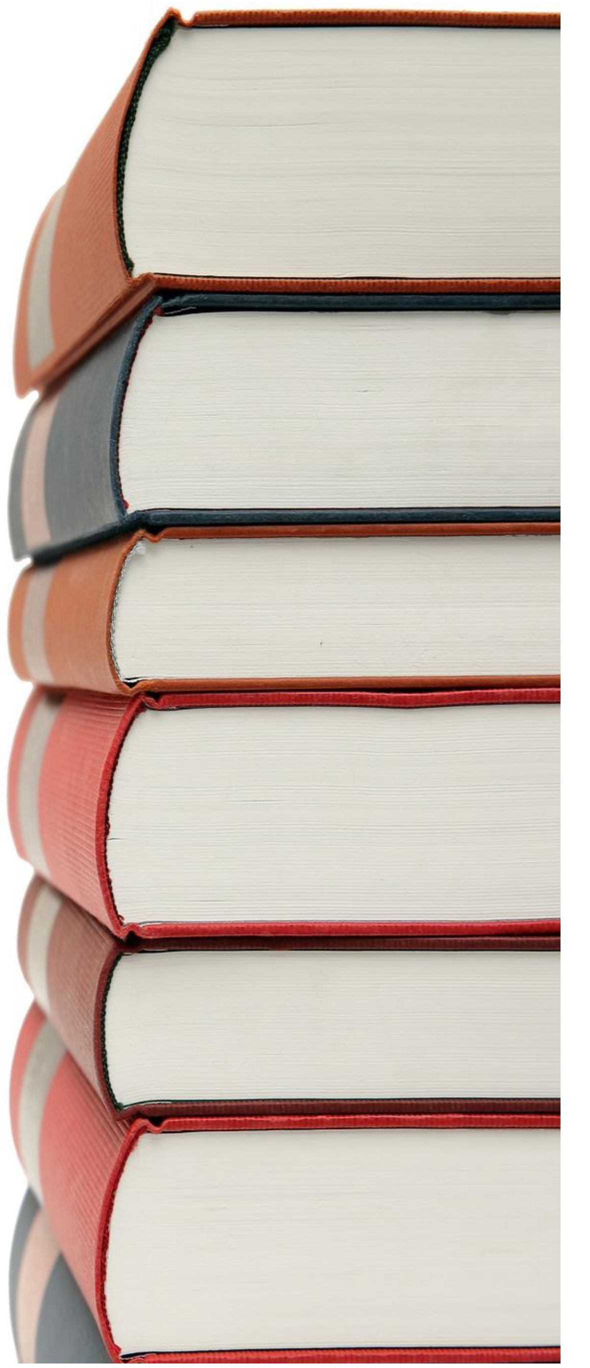
- What is the primary action you are taking away today?
  - Prepare a rolling cash flow forecast from scratch
  - Revise / update an existing cash flow forecast
  - Forward the slides to someone who needs to do one of the above

What can Trustees do?

- Boards and Trustees will need to consider immediate, medium term and long term actions
- Remember that it's not just the Treasurer's job to be responsible for the finances, but the Board as a whole
- Beware of increased risk of fraud, as staff levels decrease and control environment is weakened; especially online fraud as more staff work remotely
- Check out Government assistance for charities, businesses, communities and employees
- Make yourself available to support staff, clients and volunteers – protect their wellbeing

Finance resources

- Cranfield Trust https://www.cranfieldtrust.org/resources/category/7-financial-management-and-sustainability
- CAF – Cost of Living hub https://www.cafonline.org/charities/resource
- PwC – meeting your responsibilities in times of financial distress 23062 PWC meeting-your-responsibilities-in-times-of-financial-distress.pdf
- NCVO - *Cost of Living Hub* *https://www.ncvo.org.uk/help-and-guidance/running-a-charity/current-events-impact/cost-of-living/#/*
- Charity Commission - *December 2022* *Manage financial difficulties in yo charity arising from cost of living pressures*
- Your auditor / independent examiner
- Lloyds Bank Foundation – https://www.lloydsbankfoundation.org.uk/media/oxpnlp4e/lbf-organisational-resilience-guide-2022.pdf



Thank you for listening!

We’re here to help

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talktous@cranfieldtrust.org
or call us on 01794 830338

- **Management consultancy**
- **Mentoring programme**
- **Resources and useful sign-posting**
- **Facilitated Peer to Peer Exchanges**
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