HELPSHEET 6

Cash flow for treasurers

All not-for-profit organisations need to manage their cash flow so they have enough money to pay the bills. These bills include day-to-day running expenses and large sums predicted and planned for in your annual budget.

In cash-flow management, timing is critical. You must have money available to pay the bills when they come in. If you run out of cash you can't pay your bills on time and unless arrangements are made to cover shortfalls, you may end up in financial difficulty. This could be as trivial as paying the phone bill late.

But if you are not in control of your cash flow, minor problems can escalate and you could have to lay off staff or, in the worst-case scenario, wind up your organisation.

Even profitable organisations have gone under because of cash-flow problems.

It is the responsibility of every board member (and especially the treasurer) to ensure that systems are in place that will prevent the organisation from trading while insolvent. Any breach of this requirement can create financial risks for individual board members.

What exactly is a cash flow forecast (sometimes called a cash budget)? A cash flow forecast has the following crucial characteristics:

- It is a numerical picture of your predicted flow of funds for a particular period, usually month-by-month for the year ahead. Some organisations find it helpful to look at shorter periods, such as weeks or fortnights, but although useful this is more time consuming.
- It allows you to predict what cash you think will come in and how much will go out over that period.
- It is an extension of your budget and you should do it at the same time as you prepare your budget for the year ahead.
- It is also an extension of your overall budgeting, but income and expenditure are allocated against a timeframe and the forecast does not follow accrual accounting. This means cash is recorded as it comes in and as it goes on, not when the financial commitment was made (e.g. invoices sent or supplies ordered).

Creating a cash-flow forecast is not difficult once you've got the figures, but getting accurate figures is the challenge. The easier way to do it is to start with previous budgets, cash-flow statements or cash-flow forecasts to see if there are clear patterns of income and expenditure – then consult your current strategy and budget to see if any major income or expenditure is expected and when this is likely to occur.

If you have staff or sub-committees responsible for their own budgets, ask them to contribute or your forecast risks will bear little resemblance to reality.

Draft the forecast so that the actual figures can be inserted next to the forecasted figures. This will allow you to analyse the data quickly to identify any significant variations.

If you don't do this, there's a risk you won't notice minor discrepancies and lose the management value of the forecast. There's an added danger that the forecast will be used as the basis for the following year, so you'll perpetuate your errors. The point of the exercise is to make sure that you know at any time exactly where you stand.

Your cash-flow forecast must also include estimated bank balances for easy comparison with your actual bank balances. The closing balance for each period is the opening balance for the next period.

Common elements of a cash-flow forecast are:

Cash in – Grants, sale of goods and services, subscriptions, return on investments, donations, fund-raising activities, sale of assets, tax refunds.

Cash out – Operating activities, such as staff, telephone bills, power bills, rental, travel, stationery, printing and copying, postage, as well as servicing finance, tax, cash used to buy assets, equipment purchases and special project costs.

How to improve your cash-flow management

You can improve your cash-flow management by:

- Developing an accurate cash-flow forecast linked to your budget and strategic plan
- Separating the recording and handling of cash
- Banking cash promptly
- Paying most expenses by cheque so you have a record
- Having all cheques countersigned
- Keeping cash in a safe place
- Reconciling bank statements regularly
- Collecting money from debtors as quickly as possible
- Centralising payment procedures
- Developing close relationships with suppliers to negotiate mutually beneficial payment policies
- Reviewing your cash situation regularly and analysing significant discrepancies from your budget.
- Having appropriate authorisation and risk management policies.

Sample cash flow forecast for one month

Estimated income	**Total budget**	**January**		
		Forecast	**Actual**	**Variance**
Grants	40,000			
Subscriptions	16,000	2,000	1,300	-700
Interest on investments	6,000	500	515	15
Sales	12,000	500	700	300
Donations	22,000	2,000	1200	-800
	96,000	5000	3715	-1185
Estimated expenditure				
Rent	12,000	1,000	1,000	0
Supplies	11,000	1,200	1,200	0
Telephone	4,000	400	650	-250
Computer equipment	3,000	3,000	2,750	250
Staff	50,000	4,166	4,166	
Postage	2,500	200	150	50
	82,500	9,966	9,916	50
Net income/loss	13,500			
Cash at start of month	1,200			
Cash at the end of month				