

FACTSHEET – CASHFLOW AND BUDGETS

Cash flow forecasting and budgeting are an important part of your financial planning and management. Both are about forecasting and predicting whether your organisation will have sufficient funds, but each with a different focus:

Cash flow forecast – focuses on the specific timing and movement of cash in and out of your organisation over a given period. It aims to ensure you have enough cash to meet your obligations (e.g. bills, wages, expenses) at any given time, helping to identify periods of cash surplus or shortfall. They help organisations manage their financial resources, ensuring sufficient liquidity to remain financially solvent (i.e. able to pay off debts and have assets in excess of liabilities).

Budget – sets financial goals and allocates resources over a period, focusing on money coming in (income) and going out (expenditure). A budget is used to plan and control financial performance, ensuring spending aligns with organisational objectives. Budgets predict whether there'll be enough income overall to cover your costs so you know you have enough money to go ahead with your plans.

Example cash flow forecast

EXPENDITURE	Jan (£)	Feb (£)	Mar (£)	Apr (£)	May (£)	Jun (£)	Total (reflecting position in July)
Rent	£ 500.00	£500.00	£500.00	£500.00	£ 500.00	£ 500.00	
Phone	£ 50.00			£ 50.00			
Gas/Electric		£ 90.00			£ 90.00		
Insurance			£300.00				
Total expenditure	£ 550.00	£590.00	£800.00	£550.00	£ 590.00	£ 500.00	£3,580.00
INCOME							
Subs	£ 40.00	£ 40.00	£ 40.00	£ 40.00	£ 40.00	£ 40.00	
Grant						£5,000.00	
Total income	£ 40.00	£ 40.00	£ 40.00	£ 40.00	£ 40.00	£5,040.00	£5,240.00
Surplus / deficit each month	-£ 510.00	-£ 550.00	-£ 760.00	-£ 510.00	-£ 550.00	£ 4,540.00	£ 1,660.00
Bank balance at start of month	£1,200.00	£ 690.00	£ 140.00	-£ 620.00	-£1,130.00	-£ 1,680.00	£ 2,860.00

The illustrative example above is simplistic, but it demonstrates the importance of cashflow forecasting in financial planning and anticipating any cashflow problems.

This small charity has secured a £5,000 grant, which it will receive in June. Looking at the financial period from January to end of June, overall they have £5,240 of income and £3,580 of expenditure. But the timings of when they will receive the incoming funds in their account will cause cashflow problems.



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Although they start the year in January with £1,200 in their account, the expenditure significantly exceeds their income for January to May, meaning they will be in the red in April, May and June. Once their £5,000 grant arrives in June, that puts them back in the black.

If their bank will allow them to go -£1,680 overdrawn in June, maybe the committee will decide this is an acceptable level of risk as there is a £5,000 grant coming the following month. But what if that grant doesn't actually come through? By forecasting, the board are able to anticipate this cashflow issue and come up with a plan. Perhaps they can negotiate a break in rent repayments until the grant comes through. Or maybe they have reserves they can utilise to help see them through. Forecasting allows organisations to anticipate cashflow issues and to remedy a situation before it becomes a serious problem.

Budgeting

Consider what you are planning to do, what resources you need to do it, how much they will cost, where the money will come from and then you should have a sense of whether you can afford to deliver your plan. Budgeting can be for the organisation as a whole or a specific project, but either way the thought process is the same.

Do you have sufficient funds to go ahead with your plans? If you need to reduce costs, think about what you're not going to deliver as a consequence of that.

Being realistic is vital with budgeting. Estimate costs that you don't have exact figures for, but be as exact as you can. Find quotes online for similar products or services. Consider all relevant or likely costs that may affect the overall budget.

Have a breakdown of costs for each service or function, including the costs of admin and rent for each of your projects. Never underestimate your likely costs in order to make your project seem less expensive than it really is. This will only lead to a shortfall in finances later on and create problems for you when trying to deliver the project. Similarly, try not to overestimate costs, especially if you are looking for funding to cover these as this may reduce how much support you are offered if it is believed that others can do it more efficiently.

Further support and guidance

For budgeting and cashflow templates and further support to improve your financial management, please contact fundinganddevelopment@buryvcfa.org.uk

For further reading, NCVO have a range of guidance and resources online for cashflow forecasting, budgeting and wider financial management. To find out more follow this link: [Financial management | NCVO](#)



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