

Cashflow forecasting

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Why cashflow forecasts matter



Building a model





Why is it difficult?

- Poor quality data
- Data comes from multiple data sources so often a pretty manual process
- Spreadsheet errors
- Position of groups
- Needs a thorough understanding of assumptions
- Is the past a good predictor of the future?
- Volatility and uncertainty



Suitable time horizons

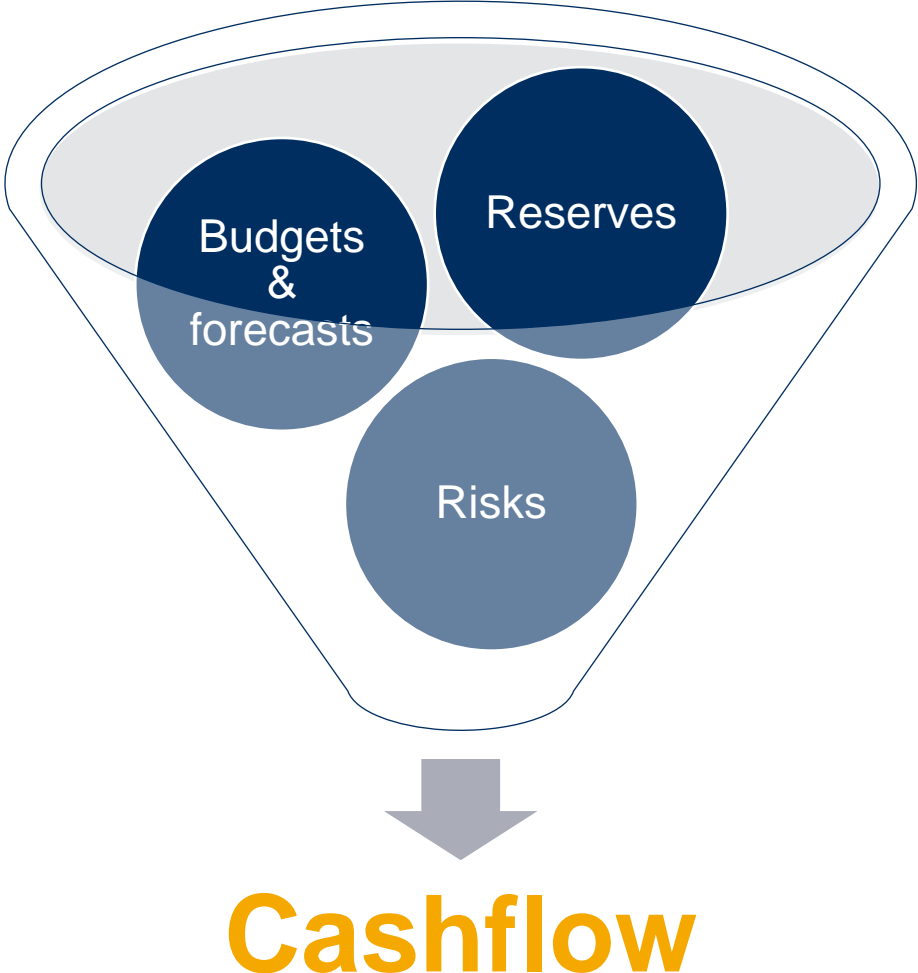
12 months from the date the financial statements are authorised for issue

Matter of judgement – factors to consider:

- significant events and conditions
- significant capital commitments & contingent liabilities
- debt repayment/loan conditions/covenants
- investment decisions
- expiry date for major contracts and grants
- key milestones or decision points.

Rolling cashflow forecast updated regularly (Daily? Weekly? Monthly? Quarterly?)

Interactions



What's special about charities?

- The special case of unincorporated charity trustee
- Public benefit & charitable purpose
- Unspent restricted grants or donations and clawbacks
- Designated land
- Restricted funds and assets
- Endowment funds
- Borrowing and loans
- Trading subsidiaries and gift aid



It's all about the funds

Analysis of Group net assets between funds

	Unrestrict- ed funds £'000	Restricted funds £'000	Endowment funds £'000	Total 2024 £'000	Unrestricted funds £'000	Restricted funds £'000	Endowment funds £'000	Total 2023 £'000
Fixed assets	64,830	6,783	735	72,348	77,258	8,062	735	86,055
Investments	15	-	-	15	15	-	-	15
Debtors	16,531	-	-	16,531	7,580	14,018	-	21,598
Cash	15,332	1,745	122	17,199	1,914	1,949	122	3,985
Current liabilities	(18,095)	(258)	-	(18,353)	(22,727)	(2,703)	-	(25,430)
Net current (liabilities)/ assets	13,783	1,487	122	15,392	(13,218)	13,264	122	168
Long term liabilities	(3,628)	-	-	(3,628)	(2,551)	-	-	(2,551)
Pension (liabilities)/ assets	62	-	-	62	(8)	-	-	(8)
Total	75,047	8,270	857	84,174	61,481	21,326	857	83,664
Restricted funds re- plenishment obligation	(14,417)	14,417	-	-	n/a	n/a	n/a	n/a
Total	60,630	22,687	857	84,174	61,481	21,326	857	83,664

The Company does not currently retain sufficient cash and other liquid assets to cover the balance of restricted funds after taking account the net book value of fixed assets donated with restrictions or acquired from restricted funds.

The Company has agreed a cash replenishment programme such that all income received, both past and future with donor restrictions will, in the future, be held in segregated bank accounts. This replenishment programme commenced for new funds with effect from April 2022 such that as at 31 March 2024 a total of £1.7m is held in segregated bank accounts. With respect to historical income, the replenishment programme commenced in financial year 2024/25. This replenishment programme is planned to be completed within the next 3 years taking account of relevant expenditure which will be charged to those accounts as incurred. Cash for the historical replenishment programme is expected to be sourced from the sale of fixed assets, existing unrestricted cash deposits and future trading surpluses. At 31 March 2023 this obligation with respect to restricted funds was presented as an undocumented inter-fund loan within debtors. At 31 March 2024, this replenishment obligation has been reflected separately in the table above.



Metrics

Operating cashflow

Debtor days

Creditor days

Cash floor/ceiling

Burn rate

Bank covenants

Cash conversion cycle

Closure costs

Pension commitments

It's all about the income pipeline and margins



Red flag triggers

- Continuing losses
- Sudden growth or sudden decline
- Use of overdraft facilities
- Sale of fixed assets
- Capital commitment
- Contingent liabilities
- Pension payments
- Drawn out going concern reviews by auditors



Challenge, challenge, challenge

- Have we considered external factors?
- Are the assumptions appropriate?
- Is the data reliable? Does it reflect the latest information?
- Does it take account of future plans and strategy?
- Have we scenario planned and sensitised the cashflow?
- Is there sufficient headroom?
- What are the pinch points?



Time horizon and accumulating funds

“Trustees/staff/committee members review the charity's investments in relation to its time horizon, including:

- whether the investments are suitable for meeting the charity's purposes over the short, medium and longer term
- the charity's risk appetite, and whether there is an appropriate balance between sound management of resources and being over-cautious
- requirements regarding income or capital growth
- where a charity is accumulating funds beyond its reserves policy, how this furthers the charity's purposes more than spending funds on the purposes
- where an expendable endowment is held, whether the intention is to spend, preserve or grow the endowment over time, why the chosen approach best serves the charity's purposes and the implications of accumulating funds”

<https://www.cigp.org.uk/principle/purpose-of-investments>



A hand holding an open book against a bright, glowing sun background. The sun is positioned behind the book, creating a strong backlight effect and a lens flare. The overall color palette is warm, dominated by oranges and yellows.

Useful guidance

- CC12
- CC14
- CC27
- CC19
- CIGP
- Investing for charities
- Our going concern guide and other relevant stuff e.g. reserves



Thank you

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