

## CASH MANAGEMENT

### What is it?

- Cash can include currency (notes and pence); cheques, banker's drafts, credits, debits and payments received and BACs.
- Cash management is the art of managing the flow and reporting of the finances within your organisation to help you manage the risks and optimise assets.

### Why does it help?

Managing cash well can help with:

- **Knowing your current position**, is it as expected, are costs being covered?
- **Forecasting cash flow**, knowing what you are likely to be bringing in at which point and how much you are expending to spend
- **Identifying trouble**, are there risks and what kinds of remedial action will you need to take?
- **Spending less time chasing money**, either because your invoices are not being paid, or because you are fire fighting the need to keep investments (funds) coming in.
- **Looking forward**, not managing your organisation by what you have today, but by what you will have tomorrow
- **Keeping control**, including making sure that petty cash is handled well within your organisation
- **Motivating** your organisation. If your core team and your Board are up to speed with the financial position and strategy surrounding it, they are in a much better position to help, and feel much greater ownership whatever the outlook. And can help with some of the answers!
- Making sure you have enough **reserves**. Your reserves may need to cover
  - a) salaries if you are paid in arrears on any of your projects
  - b) redundancy commitments
  - c) any other unexpected expenditure

### Key principles

There are four critical parts to managing cash flow well. Each has a distinct part in ensuring that you deliver on your Business Plan.

1. **Recording all transactions**
2. **Monitoring the results**
3. **Having the right controls in place**
3. **Reporting well**

#### 1. Recording

Your cash flow records are the foundation of good cash management. Ensure records are kept of even the smallest transactions so that at any one time all cash is accounted for and can be cross referenced.

#### 2. Monitoring

Set regular times to monitor your cash flow to ensure you can proactively manage the situation.

- Make sure you regularly monitor what the current situation (actual) is against the original plan (or budget), that any difference (variance) is understood and that you put this in the context of what is expected to happen in the future (forecast). It is usual to do this at least monthly.
- Reconcile your bank statements when you receive them.
- Make sure you monitor what you need to know, not everything.
- Set regular reviews on individual projects
- Make sure that monitoring is not just the role of the finance team

#### 3. Control

It is essential to have good controls in place. The key controls are:

- 3.1 Strategic Planning (including an annually updated budget plan)
- 3.3 Clearly designated and written financial procedures
- 3.3 Written purchasing policy
- 3.4 Risk management
- 3.5 Meeting the requirements of the law.
- 3.8 Appropriate insurance policies
- 3.9 Keeping adequate reserves
- 3.8 Your Board/Trustees

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### 3.1 Strategic planning (including an annual budget plan)

- Make sure you have a plan that links your budget requirements with your objectives and the delivery plans and programmes that you wish to run
- Plan where the income is going to come from (contracts, grants, earned income). Make sure your income comes from a diverse range of sources
- Know what your costs are likely to be and be clear that ALL costs are covered and when projects begin and end. Make sure you know upfront what will be in jeopardy once individual projects come to an end.
- Make sure your reserves cover the cost of redundancy and any other long term liabilities
- Have a contingency plan in case things don't happen as expected.
- Use your Board/Trustees. Smaller organisations are often stretched when it comes to capability and capacity for strategic thinking. Your Board/ Trustees can be a powerful resource.

### 3.2 Clearly designated and written financial procedures

Make sure these are written and all company personnel are aware of them and adhere to them and include

- Allocation of responsibilities at each stage of receiving, recording, banking and reporting monies.
- Make sure the person recording the cash receipts and paying the bills is not the same as the person doing the banking.
- Manage restricted funding separately and make sure you keep accruals for any potential payback
- Decide how to record money in and what is receipted (judge what is practical) e.g. a play group may choose to have signing in procedures rather than receipts for services
- Always hold client' funding in a separate bank account
- Always have dual signatures on company cheques.
- Have a policy on who has the on-line banking passwords and keep this very restricted
- Set regular intervals for banking cash (e.g. daily, weekly, monthly). When closing accounts, check all commitments have been paid, transferred
- Make sure you have the flexibility to bank exceptions when appropriate e.g. large cheques/ cash payments
- Think about security – where money is kept, how & where it is recorded, the authorisation levels and dual signing policies
- Don't do things twice.

For sample financial procedures go to the Cash Management Stepping Up Guide on [www.glossteppingup.org](http://www.glossteppingup.org)

### 3.3 Have a written purchasing strategy

Make sure you have a written purchasing strategy and that all those spend money on behalf of the organisation are signed up to it.

### 3.4 Risk Management

Risk management is simply the art of identifying key risks to the organisation (what might go wrong), which of these are important and would have a big impact and what your options are if it happens. For example, you might lose a contract unexpectedly, or your costs might come in higher than budgeted.

- Brainstorm what the key risks might be regularly (usually quarterly, but when it is appropriate for you organisation). Areas to look at could include:

**Financial:** are regular reports produced? Are there likely to be any unexpected 'holes'?

**Regulatory:** what will be the impact of recent changes in health and safety, employment law, charities act?

**Strategic:** review plans for future development, are they still realistic / appropriate?

**Supplier contracts:** can these be improved?

**Contract delivery:** can the organisation still achieve what it has agreed to deliver? It is always better to admit problems now rather than risk your reputation through non delivery.

- Never leave identified risks as 'problems'. Always try and find a way to mitigate the problem, or find an action to fix it
- If it is likely that there will be a significant budget hole, make sure you build reserves to accommodate the risk.

### 3.5 Meeting the requirements of the law.

Make sure organisation standards of practice with regard to money management meet the requirements of the law. The law changes depending on what type of organisation you are:

- If you are a charity, follow the rules of the Charity Commission ([www.charitycommission.co.uk](http://www.charitycommission.co.uk))
- If you are an industrial and provident society, follow Industrial and Providence Law ([www.cooperatives-uk.coop](http://www.cooperatives-uk.coop))
- If you are a registered company, you need to abide by Companies Law ([www.companieslaw.gov.uk](http://www.companieslaw.gov.uk))
- If you are an organisation that does not have legal status, you are bound by Common Law

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### 3.9 Appropriate Insurance policies

Make sure you are covered at an appropriate level for your organisation, and review this annually. Make sure you cross quote your policy before you renew.

### 3.10 Reserves

Build a policy and a plan for building and managing cash reserves, based on an assessment of needs and risks

### 3.11 Your Trustees/Board

- Is your board effective? Is there an appropriate mix of skills? Does at least one person have financial skills? Do they meet regularly enough and will they take hard decisions if needed and communicate these well?

## 4. Reporting

The point of reporting is to analyse and share all the records to make sure you are financially healthy, or to help sort any problems if not, or take advantage of any opportunity to invest.

They should be catalysts for decision making – can you spot any trouble and if so what are you going to do about it? Is there a variance between expected cash flow and actual and if so why? Are your projects covering costs and if not why not and how can you fix it?

- Identify everyone who may need a report, and find out what they need it for and therefore what the most important pieces of information are.
- Compile your reports so that you answer all needs with as few reports as possible, ideally one page each and that you only have one set.
- Add words to explain the numbers
- Differentiate between regular financial reporting and one off financial reviews e.g.
  - Review monthly your cash position against your original budget, and include your cash held. Review this forecast going forward. You might want to ensure you have a breakdown to show key projects so that you can track these individually, monthly too
  - You might have a separate process for reviewing implications of any new bids or contracts
  - Make sure you do regular reviews on individual projects. Are the costs as you expected? Are the funds flowing in as expected? If not, better to fix this earlier rather than later
  - Share the reports widely. Knowing and understanding the numbers can be great motivator. Let your teams take financial responsibility for what they are doing and make sure they understand the cost implications of what they do

### Spotting trouble

Of course, one of the key points of reviewing the reports is to make sure you are able to try and identify any trouble before it happens.

### Dos and don'ts

- Use your Trustees/Board. They can provide extra strategic input, particularly if you are a small senior management team
- Make sure you have a proper budget/plan in place against which you are monitoring your actual results, your cash reserves and your latest forecasts
- Make sure you have proper financial procedures in place to ensure you have proper controls.
- Be familiar with who owes you money, how long they have owed it for and when (or even whether) it is likely to come in
- Don't call money coming in funding. Call it 'income' if you generate the cash yourself or 'investment' if someone else gives it to you. Investors will want a return (of service if not investment income)
- Be pragmatic. Use time well – there is a point when you should stop chasing bad invoices. Try and get money upfront before you pay the supplier
- Make sure you have adequate insurance
- Don't spend restricted funding on other things, and make sure you track it – it will have to be returned if not used appropriately
- Do keep clients' accounts separate
- Do keep track of petty cash and know its journey through the organisation
- Keep your reserves healthy, don't be profligate in good times
- Keep it simple – don't double work. Received money in and out under pre-defined headings Set out project headings and make sure these are within your accounts.

For examples of reports and financial procedures go to [www.glossteppingup.org](http://www.glossteppingup.org) and find the full Stepping Up Guide on Cash Management or contact [jane.grindey@co-operativefutures.coop](mailto:jane.grindey@co-operativefutures.coop)