

Strategic Finance Projections

The future is inevitably uncertain and it is important to make some assessment of future resource needs and income to ensure your strategy is realistic. There are a number of very useful techniques, but not all organisations have significant technical financial skills and everyone is hard pressed. This guidance note is aimed primarily at smaller charities. It outlines, a range of simple steps that can be taken quickly and easily to create a basic strategic financial forecast.

Basis of Forecast

This note uses a cash based approach, as this can be a major risk, but takes into account the reserve position at the end.

Timescale

How far ahead you might want to project depends on how far ahead your strategic plan is; 3, 5 or even 10 years. However, how far ahead you can project depends on a range of factors, not least how far into the future you can make estimates with some degree of confidence.

Creating a Simple Model

Current Year Forecast - First, create an realistic up-to-date annual forecast to year end, separating out at least staffing costs. Create a simple spreadsheet and drop these into it.

| Step 1 | Current Financial Year | Year 1 | Year 2 | Year 3 |
|-------------|------------------------|--------|--------|--------|
| Staffing | £ 80 | | | |
| Other Costs | £ 20 | | | |
| Total | £100 | | | |

Current Year One-off Costs - Next identify any major one-off costs in the current year that will not be repeated in future years. For example, a large project coming to an end. Subtract these out and transfer the numbers to the future years.

| Step 2 | Current Financial Year | Year 1 | Year 2 | Year 3 |
|-------------|------------------------|--------|--------|--------|
| Staffing | £ 75 | £75 | £75 | £75 |
| Other Costs | £ 15 | £15 | £15 | £15 |
| Total | £ 90 | £90 | £90 | £90 |

Future Year One-off Costs - Then identify any additional major costs that will arise in future years. For example, any large new projects or services in your strategic plan, or major costs that are likely to arise, such as replacing the roof on your building. Add these in.

| Step 3 | Current Financial Year | Year 1 | Year 2 | Year 3 |
|--------------------|------------------------|-------------|-------------|-------------|
| Staffing | £75 | £75 | £75 | £75 |
| New Service | | £10 | £10 | £10 |
| Sub Total | £75 | £85 | £85 | £85 |
| Other Costs | £15 | £15 | £15 | £15 |
| New Service | | £3 | £3 | £3 |
| New roof | | | £5 | |
| Sub Total | £15 | £18 | £23 | £18 |
| Total | £90 | £103 | £108 | £103 |

Future Year Incremental Costs - You will also wish to think about year-on-year increases in staff cost and the impact of inflation on other costs and make some estimate for these. For staffing, don't forget to check for possible legislative changes to employer National Insurance, the Minimum/Living Wage etc and, if you have a very low pension contribution, the [minimum employer pension contributions](#) will be increasing April 2018 and again in 2019. Assuming a staffing increase of 2% each year and inflation of 3%, would give the following.

| Step 4 | Current Financial Year | Year 1 | Year 2 | Year 3 |
|--------------|------------------------|-------------|-------------|-------------|
| Staffing | £75 | £87 | £88 | £90 |
| Other Costs | £15 | £19 | £24 | £20 |
| Total | £90 | £105 | £113 | £110 |

Flexibility Analysis

These figures are obviously uncertain and, consequently, it can be helpful to calculate Best and Worst cases, as well, and estimate what the probability of these occurring might be. Assuming a best case of new service staffing costs being £8 and the related other costs £, and a worst case of staffing being £13 and other costs £5, and the roof costing £7, gives the following.

| | Probability | Year 1 | Year 2 | Year 3 |
|-------------|-------------|-------------|-------------|-------------|
| Best Case | 15% | £102 | £110 | £107 |
| Most Likely | 75% | £105 | £113 | £110 |
| Worst | 10% | £110 | £120 | £115 |

Other Factors

Reserves – the above, ignores reserves. It may be that funding has prudently been set aside as a designated reserve to pay for the roof, in which case the roof funding would be taken from these reserves instead.

On the other hand, it may be that the reserves are below where these need to be and will need to be built up to a safe level over a period of time, in which case these amounts would need to be added in to the forecast.

Useful Links:

[IF: Fundraising strategy](#)

[CC: Charity reserves](#)

[SV: Reserves](#)

[CCW: How to manage strategic reserves](#)

[CC: Reserves and defined benefit schemes](#)

[CFG: Beyond reserves](#)