

Financial appraisal for heritage projects

October 2008

You can get more copies of this guidance by:

- downloading it from www.hlf.org.uk;
- emailing enquire@hlf.org.uk;
- phoning our helpline on 020 7591 6042;
- contacting us by textphone on 020 7591 6255; or
- using Text Direct 18001 020 7591 6042.

If you need a copy of this guidance in an alternative format (large print, Braille or audio version), or if your first language is not English, we can provide it in the appropriate format or language if you ask us. It is also available in Welsh.

Financial appraisal for heritage projects

Welcome

The Heritage Lottery Fund (HLF) was set up in 1994 to distribute money raised by the National Lottery to heritage projects throughout the UK. In our first 12 years we awarded over £4 billion in grants to over 26,000 projects, from multi-million-pound investments in well-known sites and buildings to small grants making a big difference to community groups.

The Heritage Lottery Fund's strategic aims are to:

- conserve the UK's diverse heritage for present and future generations to experience and enjoy;
- help more people, and a wider range of people, to take an active part in and make decisions about their heritage; and
- help people to learn about their own and other people's heritage.

We produce a range of guidance to accompany our funding programmes and application materials. These are designed to illustrate the type of projects we can support and help you to prepare the information we need from you to assess your application. We also aim to help you plan your project effectively and achieve good-quality outcomes, for heritage and people.

We assess all applications to our **Heritage Grants** programme (grants over £50,000) in two rounds. This is so you can apply at an early stage of planning your project and get an idea of whether you have a good chance of getting a grant before you send us your proposals in greater detail. At the first round you can also apply for a development grant. If you are successful, this will contribute to the cost of planning and developing your project up to your second-round application.

Under our **Heritage Grants** programme (grants over £50,000) we do not ask for a separate business plan with your application, as most of the information we need is included in the application form. However, if you are planning a large project, or a project that is dependent on generating an additional revenue stream for financial sustainability, you will need to demonstrate how you have arrived at your income forecasts with your second-round application.

You should therefore read this guidance if:

- you are applying for **more than £1 million** for any type of project;
- your organisation will need to create significant new income streams in order to sustain the benefits of your project in the long-term.

For a complete list of our guidance notes visit our website www.hlf.org.uk.

Financial appraisal for heritage projects

Contents

1	Introduction	4
2	Links to other parts of your application	4
3	Assessing the market for priced services	5
4	Undertaking financial appraisal	9
5	Websites and online services	12

Appendices

Appendix A

Sources of information	16
------------------------	----

Appendix B

Income and spending table	17
---------------------------	----

Appendix C

Cash flow	19
-----------	----

Appendix D

Glossary of common terms	22
--------------------------	----

Our offices	23
-------------	----

Financial appraisal for heritage projects

1 Introduction

You should read this guidance if you are applying to HLF for a grant of more than £1 million, or if you will need to generate a significant new income stream in order to sustain your project in the long term. We will ask you to demonstrate that your plans for doing this are robust in your second-round Heritage Grants application.

No two heritage projects are the same, and you will need to interpret how to apply this guidance to your own circumstances. It is designed primarily for heritage projects that plan to make a charge for entry, or for use of facilities or for other services provided, for example:

- venue hire;
- catering;
- retailing.

If your project is not based at a physical heritage site, but will be dependent on generating a revenue stream (for example, from a website), you will still need to undertake a market and financial appraisal (see section 5).

This guidance explains how to do that and how to present the evidence for your project's financial viability in your second-round application.

2 Links to other parts of your application

The application form for Heritage Grants asks you to provide most of the information normally found in a standard business plan:

- Information about your organisation (section 1)
- How you have arrived at your project proposals (sections 2 and 3)
- The strategic background and project aims (section 3)
- The market for your project and who will benefit (section 4)
- The project details, timetable and costs (sections 5 and 6)
- Information on your management and staff (section 5)
- Risk assessment (section 5)
- Monitoring and evaluating your project (section 7)

Two key outputs from your market and financial appraisal will be your **income and spending table** and **cash flow table** (see the appendices for examples). The first relates to the ongoing financial sustainability of your project and the second to your capital expenditure as the project progresses. You will need to ensure these fully reflect the project details provided in the application form and take account of the costs and income identified in your activity plan (see below). If your project involves conservation or capital works costing more than £200,000 you will also need to draw on information in your costed 10-year management

Financial appraisal for heritage projects

and maintenance plan, or conservation management plan. You should provide a commentary on how you have arrived at the figures based on your market and financial appraisal.

During the development period between your first and second-round applications, your approach to assessing the market for your project needs to be an integrated part of the wider planning process for engaging people with your heritage. Our guidance *Thinking about audience development* contains useful sources of help and further information on this. We use the term audience to describe all the people who might be involved in, or come into contact with, your heritage through the project you are planning. This includes your current users and visitors, and people attending events and participating in activities, as well as people you would like to attract. It includes volunteers and members of Friends groups, your staff, and your trustees or board of management. For priced services, some or all of these people may form your potential market.

3 Assessing the market for priced services

In assessing the market for a heritage site or visitor attraction, you must consider such issues as:

- where visitors are likely to come from geographically, whether they will be tourists staying overnight in the area, visitors on a day trip or local residents;
- what sort of groups will come, for example the percentages of adults, older people, schoolchildren and so on;
- how often they will come;
- how much time they will spend;
- how much they will pay to use or visit the facility (if relevant);
- how much they will spend in your shop, café or other outlet (if relevant).

Target market

Your target market is the group or groups of people that you consider will be most attracted to your heritage, whether it is a single item, a collection, building, site, or a combination of different kinds of heritage.

In identifying your target market, you should take account of your current situation (how many visitors and users you have now), the profile of your heritage (is it of local or national interest, is it well-known?), and whether it is likely to be valued by a wide cross-section of the public or a more limited special-interest group.

You should be realistic when deciding who should be the focus of your market. For example, a local nature conservation project may well include in its target market local residents, family groups, and educational groups. It is less likely that it would be able to draw significant numbers of tourists or day visitors. This does not mean that nobody from these categories is likely to visit, but they will probably not be the main market. You should also remember that the tourist market is

Financial appraisal for heritage projects

notoriously competitive and that it can be subject to fluctuations in response to larger economic and other factors which tend to be outside of your control (e.g. terrorism threats, epidemics such as SARS or foot-and-mouth), whereas your local market tends to be more stable.

Total market size

When you have decided who your target market is, you should gather as much information as possible on the total size of that market. This is not an estimate of the number of people who are likely to visit your project, but rather the total number of people who make up the population from which your visitors will come.

Depending on your target groups there are different sources of information available, many of them now online:

- Local councils hold information on the current and estimated population of specific areas. You can also access demographic information via the Office of National Statistics – see www.ons.gov.uk/census/get-data/index.html
- Area and national tourist boards hold information on the number of tourists and other visitors, including day-visitors and business visitors, to specific areas. These sources can also give you information on the number of visits to many attractions within a specific area.
- Education authorities can provide information on the number of school children or students in any area. (See also www.dcsf.gov.uk/rsgateway)

If your project is likely to appeal to specialist groups, you should contact any local or national associations to see how many local members they have.

See Appendix A for some further sources of information.

As well as the resources above, there are a number of professional companies who (for a fee) will provide more specific information and other data – for example travelling times and the percentage of the population in certain socio-economic groups likely to visit different types of attraction.

Market trends

As well as assessing the total size of the market, you should identify and provide information on trends, looking at how your markets have changed in the past few years. For example, tourist boards will have information over a number of years to show the changes in visits by various groups at a regional and a national level.

Some sources will provide forecasts of how markets may change in the future. These forecasts cannot be guaranteed, but they will give you an idea of how your markets could change over time. If you are a new organisation with limited market knowledge, try to identify and talk to organisations operating in the same or comparable field who have a good knowledge of the market and a perspective on market trends. A number of sector organisations conduct their own data gathering and research projects and may have useful information to share.

Financial appraisal for heritage projects

Comparative analysis

When you have decided on the size of your total target market, you should examine comparable attractions or type of project. You should consider these at the local level and at national level.

In each case the information you gather should allow you to compare your own proposed facility, service or attraction with what else is on offer. The more relevant information you can gather, the more confident you can be that the visitor or user forecasts that you make are relatively reliable and that you can defend them. This will also allow you to set a realistic pricing policy.

In relation to other local attractions, your facility will be competing directly for local residents and groups, day visitors and tourists, of which there is likely to be a stable number, unless your heritage is well known or of particularly wide appeal.

For comparable regional or national facilities, you should look at attractions which are as similar as possible to your own. However, it could also be useful to compare those on a larger or smaller scale if they are very similar to yours in other ways (such as having a similar heritage focus).

You should set out in simple tables the main information you have gathered for comparable local and national attractions. This should include:

- the name of the attraction and where it is based;
- its theme;
- how long it has been operating;
- the facilities it provides;
- its admission charges if these apply for each visitor category (adults, children, students, older people, groups and so on);
- its visitor figures for recent years (e.g. the last three); and
- its opening times (does it open every day, is it open all year or only at certain times?)

When benchmarking your visitor projections you should check with your comparator organisations what their published visitor figures include – in particular whether it includes non-paying visitors, e.g. attendances at evening or other events outside of normal working hours. Ideally you should get a full breakdown between different visitor categories, although this can be difficult to obtain.

The easiest way to start is to consult their website. You can also access their annual accounts (if they are registered charities) via the Charities Commission website (www.charitycommission.gov.uk/) which will give you details of their income and expenditure profile. This may be useful for benchmarking your income and expenditure projections (see next section).

Financial appraisal for heritage projects

Using your information about similar attractions, particularly those that are local to you, you should now be able to set realistic pricing policies, broadly in line with what the market can support (for example, for admission). Visitor categories might include:

- adults;
- children;
- family groups;
- concessions (older people, students, unemployed);
- educational groups;
- other groups (for example, parties of ten or more); and
- season tickets.

Finally, you should consider how your visitor number is likely to fluctuate from the first year post project completion (when you are likely to benefit from renewed interest and publicity) to the following years when you will settle into a more normal pattern. Again, it can be useful to look at the experience of comparable organisations in your neighbourhood or elsewhere who are a few years ahead of you and can share their experience with you. You should also take account of any known future changes in the local environment (for example, local population growth from increased housing development).

Penetration rates analysis

Another route to establish your likely visitor or user forecasts is to use a technique called 'penetration rates analysis'. This is usually only worthwhile on very large and high-risk projects. It is not an exact science, and can be challenging to carry out, but it allows you to look at the range within which your visitor numbers are likely to fall, comparing them to other local or national organisations.

Penetration rates are the percentages of the total number of people in any given population that actually visit or use your attraction. For example, if the total adult population within a 30-minute journey of a local attraction is 500,000 and 5,000 locals visit or use it in any one year, the penetration rate in the local market is 1%.

You are unlikely to get market penetration rates from comparable attractions. You will therefore have to estimate total visitor numbers and estimate how many visitors will be attracted from each market. You then have to work out the penetration rate. A penetration rate of more than 5% will be very difficult to achieve in anything other than exceptional circumstances.

You should consider a range of penetration rates, as these will generate a range of visitor or user numbers representing high, medium and low scenarios. These different scenarios are critical for you to think about the risks you may face and how you can work to reduce, as far as possible, their effect.

Financial appraisal for heritage projects

Capacity analysis

When making your forecast of visitors and user numbers, you should take account of the size of building or space available. In your second-round application we will expect you to show your analysis based on estimates of the size of your building (if relevant), the average time spent at the attractions, your opening hours each day and the opening days each year. This will allow you to work out the maximum number of visitors each day or year. Your user or visitor forecasts should not be greater than this figure.

Your conservation management plan should help you think about the maximum number of visitors your building (or parts of it) can accommodate at any one time without causing a conservation or health and safety risk.

Remember that the figures provided by your penetration rate analysis will relate to the visitor numbers you can achieve when your project is fully up and running and people have become aware of it.

4 Undertaking financial appraisal

Section 7 of the Heritage Grants application form at the second round asks you to tell us how you will ensure that your project is financially viable in the long-term.

Your financial appraisal sets out all of the financial implications of your proposed project. You should explain the basis of each item of income or spending, and prepare tables or spreadsheets setting out the income and spending on a monthly basis for the first year and then by year for ten years. We have included forms for the income and spending statement and cash-flow statement in Appendices B and C.

If you are an existing organisation you should base your analysis on your latest completed financial year (or the current year budget) and use this as a starting point for your projections so that you can clearly assess the net impact on your financial position from the incremental, ongoing income and expenditure caused by the project you are proposing.

Income

Many projects will produce an income. This may include earned income, contributed income or both.

Earned income is based on the income from providing facilities, activities or services to user groups or markets in return for which they pay a fee or charge. The market analysis you carry out will give you details of your market size and the user charges. You can use this information to estimate the monthly income you will earn. You should break down your projections so that they clearly show what the numbers are made up of, e.g. number of projected visitors by category; proposed charge per category; projected retail and catering visitor spend per head etc.

Financial appraisal for heritage projects

As well as income from user charges, you should also include any contributed income from donations, sponsorships or grants. Give details of the anticipated income from these sources and explain the basis of these figures.

Spending

Providing facilities, supporting activities and delivering services will create costs for your organisation. Your project may involve delivering an increased level of activity or service. Your income and spending plans should take account of this. You need to identify all the potential costs that your project will generate and estimate what those costs will be each year. Remember that your costs can vary from year to year.

You should break your projections down as much as you can into each distinct cost category.

The most significant costs will probably be staff costs (which usually accounts for 40–60% of total cost, depending on the balance of staff to volunteers). You should estimate the costs of employing paid staff in your application, along with the various costs associated with using volunteer staff.

The costs of employing paid staff must reflect the salary levels for the expertise, the experience needed and any special factors influencing employment costs in the local area. You should compare the salary for the employed positions in your organisation with positions in other organisations. Job recruitment adverts in local and national press and specialist publications (e.g. *Museums Association Journal*, *Arts Professional*) will provide comparisons. Remember to allow for employers' National Insurance costs, pension contribution (if offered) and any other allowances.

After staff costs, there may be other unavoidable costs connected to any land and buildings you are responsible for. You will need to get advice to estimate the costs of insurance, maintenance, utilities, rates (if these apply). If you are spending more than £200,000 on capital or conservation works, we ask you for a costed 10-year management and maintenance plan for your site (or a full Conservation Management Plan if your grant request is over £1 million). These costs should be reflected in your income and spending table. (See our guidance *Management and maintenance planning* and *Conservation management planning*.)

If you plan to rent premises, the terms and conditions of the rental agreement should be agreed in principle and included in the estimates.

If the focus of your project is a heritage object or collection, you should include the costs of curating, conserving and documenting it.

You should make adequate provision for the cost of marketing activities (including maintaining your website) as well as for any proposed programme of events or exhibitions contained in your activity plan. Some of these may be covered by grants, in which case make sure you state clearly your assumptions.

Financial appraisal for heritage projects

Your project may also create extra general costs associated with operating an organisation. If you are an existing organisation, you will have to pay a number of these already. These include such items as:

- professional fees for accountancy and legal advice;
- office costs such as stationery;
- phones, and other items; and
- travel and transportation costs.

If you are a grant-aided voluntary sector organisation, with no other means of covering your costs, you may apply for a contribution to these costs (known as overheads) under our support for 'full cost recovery'. (See our guidance *Understanding full cost recovery*.)

There may be a number of specific items connected to the particular services and activities your organisation provides that are not covered under staffing or the other operating costs highlighted above. The basis of each estimate of spending should be clear and based on evidence from a suitable source.

Contingency

Finally you should consider including a contingency allowance to cover the risk of unforeseen circumstances. You should apply this as a percentage (within a range of 5–10%) of expenditure but only apply it to non-staff costs as payroll costs are not usually subject to unforeseen variations.

Inflation

You should provide adequate provision for inflation where you are likely to see costs increase from current levels – e.g. staff salaries, utilities costs, buildings costs. You can either use one inflation rate across all expenditure categories, or (better) consider that different cost categories are subject to different levels of cost inflation (e.g. payroll, building related costs, energy/utility costs).

Income usually does not rise in line with inflation. You should review your pricing policies and charges regularly.

Financial viability

Use the income and spending tables to find your yearly surplus or deficit. If your project is likely to result in a continuing deficit each year (which means that your spending is more than your income), it is not viable and we would not give you a grant. In these circumstances you will need to review your plans and find out whether you can get any extra earned or unearned income. If your project is likely to create a surplus of income each year over your spending, you should consider how much this surplus would be affected by changing any assumptions in your plans (for example, about visitor numbers or overheads). You do this by carrying out a sensitivity analysis.

Financial appraisal for heritage projects

Sensitivity analysis

Sensitivity analysis is a way of testing the financial strength of your project plans by varying a number of the income and assessing the effect on the reported surplus or deficit.

You should choose the income items which are most critical to your project's success and those which are most uncertain or contain the greatest risk. Change these items to see what the effect is on the reported surplus.

If any of your sensitivity tests results in deficits each year, you should consider how you would deal with these situations. Include these explanations in your answer to question 5c in the Heritage Grants application form.

If your project relies on earned income from specific markets, you should identify the risks that may influence your user or visitor numbers. You should assess what effect these risks may have on these numbers and the financial consequences (for example, a fall in the numbers or overseas visitors or a competing attraction opening). You will then have to explain how you would tackle these particular financial consequences.

In some cases it is useful to produce a second set of budgets showing best-case and worst-case scenarios. This will allow you to test how well your assumptions on visitor numbers, income targets and costs stand up to changes in circumstances. You may need to review your plans in the light of these scenarios.

5 Websites and online services

Assessing the market

For priced web-based services, market issues to consider include:

- Have you clearly identified your target market or markets?
- Are you being realistic in terms of your predictions on market size?
- What is your business model? You will need to develop appropriate targeting and reporting mechanisms, depending on whether you are aiming to generate income directly through transactions (e.g. selling physical goods, tickets, licensing images for reproduction) or through other means, e.g. subscriptions, advertising or sponsorship.

Target market

Your online service must be carefully designed with the target customer in mind. It is essential to be clear on whether you are providing a specialist service aimed at repeat users, a more general public service, or a combination of the two. You also need to identify any distinction between open areas of the site which are accessible to all and special subscription-based areas. Consider what percentage of your online visits is likely to be from UK versus overseas users, and whether any linguistic allowances need to be made for a high proportion of non-English

Financial appraisal for heritage projects

speaking visitors. If you are trying to encourage repeat visits the site will need to reward this through a range of constantly changing elements.

Market size

Market size for web services is notoriously difficult to estimate, since the internet is by its nature global rather than local. You need to analyse the usage of any of your existing online services to get a sense of your current market reach. These should be looked at alongside those from one or two other similar established services to get a sense of the potential marketplace (you will need to find other organisations willing to share this data). The potential market size will help you to estimate the maximum number of likely concurrent online visitors. This will be essential to make the necessary technical allowances for the level of site traffic your website will need to be capable of handling.

You also need to consider carefully who your competing online service providers are and whether there are potential benefits to partnering on some or all aspects of your online initiative.

Measuring service use

For transaction-based services, your e-business infrastructure should enable you to report on income and trends and tailor the design of the site to maximise revenue. For other business models (e.g. income from advertising) for any given period you will need a range of website usage statistics to monitor such things as total number of hits, unique visitors, and average page views. You also need to be able to measure how these differ for the various areas of your site. There are a wide range of different tools enabling you to monitor online visitor activity. These vary from very simple pieces of software which are freely available, to much more comprehensive tools with a purchase or license fee attached (one popular example being WebTrends).

Financial appraisal

For web-based services the following financial issues need to be considered:

- Can you afford the initial development costs?
- Will you be able to support the long-term running and maintenance costs?
- How confidently can you forecast any income from or for the service?
- Can you guarantee the overall financial viability in terms of income vs. expenditure?

Financial appraisal for heritage projects

Spending

The development, maintenance and running costs of your online service need to be carefully estimated. It is probable that the most significant investment will be made in year one with the development of the service, but there are likely to be some ongoing staffing costs as well as fees for the supply of technical services.

Development costs

Decisions need to be made whether development can be carried out through specialist staff in-house, or more likely through enlisting the services of one or more external agencies. If to be carried out internally you need to be sure that you have the right skills in place or can afford to recruit them (the main case for this would be if those skills are required for your organisation in the longer term). If externally, you need to produce a clear statement of requirements and assess the responses of a range of potential suppliers in terms of relative value for money. In the case of large projects it may be that you need to separate out the design and the technical services.

Maintenance

In terms of maintenance, it is unlikely that your online service will continue to run and develop without some ongoing staff involvement. Websites are like any other kinds of service in that they need to continually evolve and adapt in response to user demands. It is likely that much of the necessary ongoing staff input will be editorial rather than technical, and a careful balance needs to be struck between the expertise retained in-house and that called on from outside. You also need to consider the costs of housing this maintenance infrastructure in terms of office space and expenses.

Other running costs

There are likely to be annual fees associated with website hosting, domain name registration, and database or content management system licensing. There may also be a fixed ongoing support fee attached to your outside development agency, along with variable fees for any special updates. All of these things need to be realistically accounted for in your spending plan. You can do this by identifying comparable projects for cost comparison, finding precedents in the costs of staffing elsewhere and by inviting initial cost proposals from potential suppliers.

Income

You need to estimate any income in relation to your online service and explain the basis for these figures.

If the service is subscription-based you need to clearly identify the scale of charges. You will then be able to work out the estimated raised income from your analysis of the market size. If you are providing e-commerce services, you need to estimate what percentage of site visitors will undertake a priced transaction, and the anticipated spend per head.

Financial appraisal for heritage projects

You may also be able raise income through advertising or sponsorship. For example, there may be opportunities to partner with a technology provider in delivering your online service. This might result in bringing you tangible cash or in-kind support in return for you providing PR or corporate social responsibility benefits.

Whatever the business model, it is important to be realistic in predicting earned income.

Appendix A

Sources of information

Commissioning Market Research

Liz Hill

Arts Marketing Association. 2000

Comprehensive guide to writing a research brief and commissioning outside research. See www.a-m-a.org.uk/publications.asp

Prove it! A practical guide to market research for museums, galleries and visitor attractions.

Useful basic guide to the elements of market research written for a museum and heritage site audience. Available from Hertfordshire Museums Officer, County Hall, Hertford SG13 8EJ. Tel. 01992 556649.

Thinking BIG!

Stephen Cashman

Arts Marketing Association 2003.

Introduction to marketing concepts with step by step guide and worksheets on topics such as market segmentation, SWOT and PEST analysis. Summary can be downloaded from www.a-m-a.org.uk

Visitor attraction trends

Comprehensive analysis of visitor trends plus visits data for individual attractions from VisitBritain and the national tourist organisations

www.visitbritain.com

www.nitb.com

www.visitscotland.org/research

<http://new.wales.gov.uk/topics/tourism>

Appendix B

Income and spending table

Forecast income and spending account

Existing organisations

	last complete financial year	current financial year	next financial year			
	year 1 £	year 2 £	year 3 £	year 4 £	year 5 £	year 6 £

New organisations

	development year	first operating year				
	year 0 £	year 1 £	year 2 £	year 3 £	year 4 £	year 5 £
Income						
Earned income						
Admission and user charges						
Catering						
Retailing						
Other earned income						
Unearned income						
Revenue grants						
Donations						
Sponsorship						
Other unearned income						
Other income						
Bank interest						
Total income (A)						
Spending						
Direct operating costs						
Staffing						
Premises						
Equipment						
Utilities						
Marketing						
Loss in value						
Administration costs						
Finance costs						
Non-recoverable VAT						
Total spending (B)						
Operating surplus or deficit (C) (C = A – B)						

Appendix B

Income and spending table

Forecast income and spending account

Existing organisations

	last complete financial year	current financial year	next financial year			
	year 1 £	year 2 £	year 3 £	year 4 £	year 5 £	year 6 £

New organisations

	development year	first operating year				
	year 0 £	year 1 £	year 2 £	year 3 £	year 4 £	year 5 £
Taxation (D) see note 1						
Net movement in funds (E) see note 2						
Surplus/(deficit) (F) (F = C – D & E) see note 3						
Reserves brought forward (G) see note 4						
Reserves carried forward (H) (H = F + G) see note 5						

Note 1 Taxation refers to any liability you have to pay UK income tax, capital gains tax or corporation tax.

Note 2 Any reduction or increase in funds not included under income.

Note 3 The surplus or deficit is worked out by taking any taxation liability from the operating surplus.

Note 4 Reserves brought forward are the surpluses and deficits which build up in the previous accounting periods.

Note 5 Reserves carried forward are the surpluses and deficits which build up in the previous accounting periods and the current accounting period carried forward to the next accounting period. The sum can be positive or negative.

Appendix C

Cash-flow

A *cash-flow statement* is a forecast which shows, throughout the life of a project, when you will receive income and when you will spend. You may have accurately estimated the cost of your project and got all the necessary funding. You may also know that over a whole year your income will be enough to cover all your spending related to the project. However, you need to remember that throughout the life of the project you will have to pay all the invoices you receive before you can claim our share of the costs. The cash-flow statement will help you to anticipate when there is likely to be a mismatch between income and spending, when there may not be enough money in your bank account at certain times to pay bills as they fall due. It will also help you to plan for these difficulties and take appropriate action before serious problems arise. Remember, if you can reclaim VAT, make sure your cash-flow takes account of the interval between the time you pay it out and when you get it back.

The *cash-flow statement* is the main way you have to test whether your income (both earned and unearned) is enough to meet your spending (payments to consultants, contractors and suppliers or extra fixed-term staff costs, and so on). Often it is prepared by an organisation's treasurer or accountant.

How to set out a cash-flow statement

The most useful form of cash-flow statement for your project is likely to be a monthly one. In the example on page 21, if you take the figure for total spending (B) away from the total income figure (A), you will be able to see the likely financial position of your organisation at the end of each month. This position can be either a surplus or deficit.

By doing this, you will know whether you will receive more money than you have to pay out in the month, or vice versa. Negative amounts in the cash-flow can be shown either in brackets or with a minus sign in front of them, as in the worked example. The income or spending for each month (see row 3 in the example) is then added to the surplus or deficit which was left at the end of last month (row 4 in the example) and has been carried forward from the previous column. This then gives an overall figure for the month, either positive or negative, which you then carry forward to next month. You repeat this process for each month of your project.

In the worked example cash-flow, there is a deficit in February, shown by a minus sign in row 3. In other words, total spending during that month (£13,230) was more than the total income (£1,600) by £11,630. However, this deficit can be covered by the £17,320 which was carried forward as cash in your bank account from January (see row 3 in the example). As a result, there are no cash-flow problems for your project at this time.

March also shows a deficit (– £6,930). However, you cannot cover this using the cash in your bank account carried forward from February which is only £5,690. The result is a cash-flow difficulty. This difficulty worsens in April and May as further monthly deficits build up. At the end of May, the organisation is shown facing a total deficit carried forward of £10,000. By the end of July, as a result of

Appendix C

the surpluses generated in June and July, the organisation can meet its planned spending. For the rest of the year the organisation generates monthly surpluses, resulting in an overall surplus at the end of the year. In this period you have a healthy cash-flow and so will be able to pay your bills on time. In these circumstances, you may want to consider spending the spare money on some elements of the project sooner than planned (that is, bringing forward some spending). Or, you could invest the money and earn interest.

Dealing with deficits

The cash-flow example reveals cash-flow deficits every month from March to June. As a result, you need to find ways of providing several short-term injections of cash totalling £10,000. You could overcome the mismatch in these months between spending and income in several ways. For example, you could arrange a bank overdraft, look for other sources of funding, or delay spending until you have saved enough to cover the entire deficit.

Remember, if you arrange an overdraft, this will result in costs, including interest, which you should include in the cash-flow statement. However, our grant does not cover the costs of short-term borrowings to cover project cash-flow deficits. In rare circumstances, we may be able to pay part of the grant up front to overcome a cash-flow difficulty but you need to discuss this with your grants officer before we make a grant.

Keeping your cash-flow statement up to date

It should be possible at the planning stage of your project to produce a monthly cash-flow statement spanning at least two years. However, for projects which will last three years and more, you may only be able to forecast cash-flow from year three onwards on a quarterly (every three months) basis, until you have enough information to return the forecast to a monthly basis. You will only see the benefits of a cash-flow statement in successfully managing your project if you make sure that you update the forecast every month as you know the true cash position.

Appendix C

Cash-flow - application example

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
	£	£	£	£	£	£	£	£	£	£	£	£	£
1 Income													
1.a Earned income													
1.a.1 Admissions	1,000	1,000	1,000	3,000	5,000	6,000	6,000	7,000	5,000	3,000	1,200	1,200	40,400
1.a.2 Retail	100	100	100	300	500	600	600	700	500	300	100	100	4,000
1.a.3 Catering	0	0	0	0	1,000	1,200	1,200	1,400	1,000	0	0	0	5,800
1.b Unearned income													
1.b.1 Local authority grant	500	500	500	500	500	500	500	500	500	500	500	500	6,000
1.b.2 Local trust grant	18,000												18,000
1.b.3 HLF grant (capital project)	0	0	10,000	15,000	20,000	25,000	20,000	20,000	20,000	10,000	10,000		150,000
1.c Total income (A)	19,600	1,600	11,600	18,800	27,000	33,300	28,300	29,600	27,000	13,800	11,800	1,800	224,200
2 Spending													
2.a Direct costs													
2.a.1 Gallery staff	1,500	1,500	1,500	1,500	1,850	2,000	2,000	2,000	2,000	1,500	1,500	1,500	20,350
2.a.2 Travel	0	150	150	150	0	0	0	0	0	0	0	0	450
2.a.3 Training	0	0	500	0	500	0	0	0	0	0	0	0	1,000
2.a.4 Marketing	50	50	250	250	50	50	50	0	0	0	250	150	1,150
2.a.5 Retail and Catering	50	50	50	150	750	900	900	1,050	750	150	50	50	4,900
2.b property costs													
2.b.1 Utilities	200	0	0	200	0	0	200	0	0	200	0	0	800
2.b.2 Cleaning	30	30	30	30	30	30	30	30	30	30	30	30	360
2.b.3 Maintenance	400	400	0	0	0	0	0	0	0	200	0	0	1,000
2.c Overheads													
2.c.1 Administration	50	50	50	50	50	50	50	50	50	50	50	50	600
2.c.2 Professional advice (legal and accountancy)									400				400
2.d Capital project	0	11,000	16,000	22,000	27,000	22,000	22,000	22,000	11,000	11,000	4,000	0	168,000
2.e Total spending (B)	2,280	13,230	18,530	24,330	30,230	25,030	25,230	25,130	14,230	13,130	5,880	1,780	199,010
3 Net cash inflow/outflow (A - B)	17,320	-11,630	-6,930	-5,530	-3,230	8,270	3,070	4,470	12,770	670	5,920	20	25,190
4 Net cash inflow/outflow carried forward	17,320	5,960	-1,240	-6,770	-10,000	-1,730	1,340	5,810	18,580	19,250	25,170	25,190	

Appendix D

Glossary of common terms

Balance sheet

This lists what you own and what you owe at the end of the accounting period.

Capital spending

The spending which will benefit the organisation for more than one accounting period, for example, building work.

Capital income

Those incoming resources which you will use to pay for your capital spending. You may use some incoming resources for capital or revenue spending, as you decide. These are unrestricted funds. Restricted funds are provided by other organisations for particular capital or revenue spending.

Cash-flow statement

The cash-flow statement assesses whether your organisation, even if profitable, will have enough cash resources to allow you to meet all payments as they fall due.

Deficit

Your organisation would suffer a deficit if its operating spending each year was more than its yearly income.

Project progress chart

Sometimes called a Gantt chart, this is used to illustrate, in bar-chart form, information on the progress of a project. It shows the duration and start dates of all the elements of a project.

Income and expenditure account

Shows whether you have made a surplus or a deficit during the accounting period. Similar to a profit and loss account but for a not-for-profit organisation.

Surplus

Surplus is the amount left over when you have met all requirements. For example, if your organisation has an income each year of £50,000 and operating spending over the same period of £45,000, it will have generated a surplus of £5,000.

Our offices

East of England

Terrington House
13–15 Hills Road
Cambridge CB2 1NL
Phone: 01223 224870
Fax: 01223 224871

East Midlands

Chiltern House
St Nicholas Court
25–27 Castle Gate
Nottingham NG1 7AR
Phone: 0115 934 9050
Fax: 0115 934 9051

London

7 Holbein Place
London SW1W 8NR
Phone: 020 7591 6000
Fax: 020 7591 6001

North East

St Nicholas Building
St Nicholas Street
Newcastle upon Tyne
NE1 1RF
Phone: 0191 255 7570
Fax: 0191 255 7571

North West

9th Floor
82 King Street
Manchester M2 2WQ
Phone: 0161 831 0850
Fax: 0161 831 0851

Northern Ireland

51–53 Adelaide Street
Belfast BT2 8FE
Phone: 028 9031 0120
Fax: 028 9031 0121

Scotland

28 Thistle Street
Edinburgh EH2 1EN
Phone: 0131 225 9450
Fax: 0131 225 9454

South East England

7 Holbein Place
London SW1W 8NR
Phone: 020 7591 6000
Fax: 020 7591 6001

South West

Trinity Court
Southernhay East
Exeter EX1 1PG
Phone: 01392 223950
Fax: 01392 223951

Wales

Hodge House
Guildhall Place
Cardiff CF10 1DY
Phone: 029 2034 3413
Fax: 029 2034 3427

West Midlands

Bank House
8 Cherry Street
Birmingham B2 5AL
Phone: 0121 616 6870
Fax: 0121 616 6871

Yorkshire and the Humber

4th floor
Carlton Tower
34 St Paul's Street
Leeds LS1 2QB
Phone: 0113 388 8030
Fax: 0113 388 8031

Head office

7 Holbein Place
London SW1W 8NR
Phone: 0207 591 6000
Fax: 0207 591 6001

Textphone:

020 7591 6255

www.hlf.org.uk



Awarding funds from
The National Lottery[®]