Cash flow management for not-for-profits

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By JOHN MURPHY

Cash flow, or working capital, management is a measure of a company's efficiency and its overall financial health. Typically, a company strives to improve its earnings by ensuring sufficient cash flow to fulfil its short term debt obligations and operating expenses. Management usually utilise policies and metrics, such as ROIC (return on invested capital), debtor days and cash-holding costs to manage its current assets and funding positions. This should be no different for not-for-profit organisations.

At **ANZ Banking Group (ASX:ANZ)** there is now a greater focus on cash flow management as NFPs and related agencies collaborate more across borders – which places greater dependencies on information exchange while critical response times are shortening.

Dependency on donations, grants and endowments necessitates, not only increasing levels of automation and integration in a NFP's financial supply chain, but also requires greater visibility, cost minimisation and risk mitigation. The importance of cash flow management for NFPs should not be underestimated – just as with any profit-making business, the objective of NFPs is to maximise funds available for distribution to beneficiaries. Efficiencies in cash flow management, underpinned by a good accounting system, are critical to reaching this objective.

Partnering with a bank that understands a NFP's working capital structure is critical. This can lead to improved efficiency levels and lower costs in the financial supply chain. Making every dollar count is also important, hence ensuring that your financial services provider is maximising returns on your savings and investments. Another avenue for consideration, particularly important for NFPs who get a large part of their funding from retail donations, is the provision of flexible payment channels.

A recent example would be direct savings to a large international, Australian-based customer as a result of outsourcing its non-core activities which centred on receipting payments. Capacity utilisation was also increased as resources were redirected to service this customer's core business needs.

Many corporations focus on cost reduction by improving workflow and process efficiencies. This can be achieved through greater integration of enterprise resource planning (ERP) systems, such as MYOB and Oracle, to banking platforms, and moving towards 'straight through processing' where manual intervention is minimised. Manual processes are expensive, require significant paper exchange and are fraught with risk and audit issues. There is a drive towards automation of processes for receivables and payables and ensuring data exchange can be validated and executed in a secure environment. Having an integrated banking platform also drives process and cost efficiencies.

Feedback from industry players suggest that there are new challengers on the horizon – intermittent cash flow problems resulting from poor working capital planning, increasing levels of automation and integration into the financial supply chain and extracting greater value from cash in bank accounts – are just a few.

Banks are responding to these industry needs by providing secure 'straight through' solutions that conform to international standards and which can be used across multiple banks. Providing streamlined reporting and tracking of transactions also ensures governance requirements are met. Another aspect which is often overlooked is the importance of having proactive and responsive account management – it is by greater interaction with our customers and understanding their needs that we will be in a position to drive innovation and in doing so, help deliver greater bottom-line savings for NFPs. ei

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