

Practical steps to manage your cash flow in a crisis

To state the obvious, it is more important than ever to understand and manage the cash flow of your business. We appreciate that many businesses will have already taken these steps, are currently juggling and making difficult decisions. Much is common sense but we hope that you will find it of help.

Cash is king

The start point is what is your current cash position at the bank? And where you have funding facilities, such as an overdraft, what is the remaining headroom in those facilities?

Then there is your “Burn Rate” which is a measure of how fast a company spends its available cash. This is a concept usually associated with start-ups who have yet to generate revenue but is particularly relevant in the current crisis. In simple terms if a company burn cash too fast, they run the risk of running out of money and going out of business. Typically burn rate is measured in months but during a crisis it could be weeks or even days.

The action is then what can a company do to slow down its burn rate and access additional sources of funding? Can you buy yourself time to get through this period?

When looking at your current facilities remember to consider the impact of the crisis on your ability to continue to utilise your existing facilities. What are the terms?

For example many business use Invoice Discounting (ID) facilities to fund their businesses. While there will be an absolute limit on the funding available it will also be typically restricted:

- as a percentage of the qualifying debtor book (say 80%)
- to qualifying debts (say debts more than 90 days do not qualify)
- by over concentration with any one customer (say 10%)

Every agreement will be different.

All of these criteria will be put under further strain.

Debtors

Collecting in the cash from your debtors through effective credit control is standard good business practice and this is even more important now. However the environment has changed. In many cases your customers will struggle to pay you on terms and the normal debt recover processes may not be available to you. Ultimately, you cannot collect what does not exist.

Communication with your customers is key. Talk to them and understand what their position is and, if necessary, discuss what revised credit terms and payment schedule is possible so that you can plan your own cash flow.



You will need also to risk assess your debtors. In looking at your debtor list which debts are likely to remain recoverable; it's just a question of timing, and which are likely to be bad debts. The ones at risk are likely to be the ones you may have had concerns about before the Coronavirus outbreak and might now be pushed over the edge.

If your debtor book is insured check the terms of the policy. Make sure that you take all necessary steps to be able to make a claim under the terms.

Make sure that new invoicing is still happening as quickly as possible. Key to getting the money in, is getting the invoices out, with the correct purchase order details where appropriate. Your customers may not be able to pay these invoices within terms but unless you get them out you can't start the conversation.

Work in progress and orders

If you have work in progress of any kind or confirmed orders go back to your customer. Understand whether they still need the work and when they will need it. If they request a delay to delivery can they pay for the work you have already done? Do they already owe you money for previous work, if so do you release the work on a pay as you go basis (i.e. get your cash before delivery and do not increase your exposure to that customer)?

Of course there are legal obligations that your customers will need to honour, but consider it first from a cash flow perspective. Enforcing a contract will likely take many months and will your customer be in a position to settle in any event?

What does the above mean to the relationship with your own suppliers? Are they able to work with you to mirror the changes in your own customer requirements?

Coming back to the credit insurance, do not assume that you will automatically be covered if you are completing work. The banks/insurance companies are continually revising (downwards) the level of exposure they are willing to take with each company. Keep on top of this. Remember that the policy is likely to kick in only once you have invoiced and the product/service has been delivered.

Overheads

What overheads can be delayed, reduced or avoided? If your business activity has reduced, some variable costs such as travel will reduce automatically and some costs can be cancelled/suspended as they are simply not needed.

Are you able to reduce your fixed costs or convert those fixed costs into a variable cost, for example agreeing a service on a turnover basis (for example rent) or an “as needed” basis (subscriptions)?

Many agreements have notice periods attached or protections built in for default but one would hope that there can be a sensible conversation in most cases.

Many landlords and tenants have had conversations and reaching voluntary arrangements about rental payments. The government recognises businesses are struggling with their cash flow due to Coronavirus and remain worried about eviction.

It has been announced by the government, that commercial tenants who are unable to pay their rent because of Coronavirus will be protected from eviction. No business will be forced out of their premises if they miss a payment over in the next 3 months (till 30 June). Of course many business can't currently access their premises.

We need to be aware that the supplier on the other side of the conversation is likely to be in a very similar position. They are dealing with the same stresses and pressures. It is about communicating so that resources can be matched to need as far as possible.

Loan (Capital) Repayment Holidays

Talking with your bank and other lenders, you have agreements with to see if you can agree a loan repayment holiday to assist with cash flow. This can include the commitments you have with leasing companies.

Care needs to be taken in the negotiations but with historically low rates of interest this should not put a significant additional financial burden on the business over the longer term.



HMRC Time to Pay arrangements (TTP)

Q1 VAT payments will be deferred

- There will be no payments between now and the end of June
- Businesses will have until April 2021 to pay this back

No interest or penalties will arise on the VAT deferred.

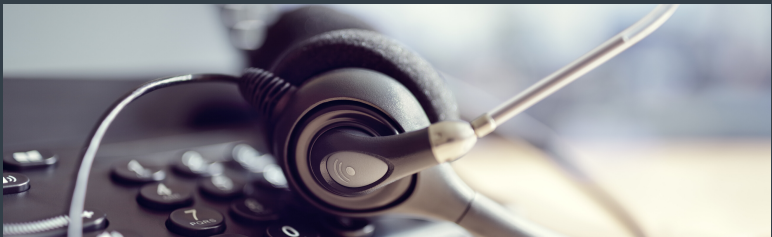
VAT refunds and reclaims will be paid by the government as normal.

While the deferral is automatic companies with direct debits to pay VAT to HMRC will also need to cancel these immediately otherwise the money will be deducted automatically despite the VAT deferral.

The VAT return still needs to be prepared and submitted.

In addition businesses with outstanding tax liabilities (including PAYE, NIC, VAT Corporation Tax) may be eligible for further support which will be reviewed on a case by case basis.

A dedicated helpline has been set up by HMRC at **0800 024 1222** (and webchat). It is a simple process and broadly HMRC will agreed deferment of taxes over a 6 to 12 month period.



Support for Businesses that pay rates

The government is introducing a business rates holiday for retail, hospitality and leisure businesses for 2020 to 2021 tax year. This including any property used wholly or mainly as a:

- shops, restaurants, cafes, drinking establishments, cinemas and live music venues,
- for assembly and leisure; or
- as hotels, guest & boarding premises and self-catering accommodation.

A further business rates relief has been created for Nursery Businesses, which will operate on the same basis.

This support will be administered through the local authorities who will adopt a local scheme. The business does not need to take any specific action, the local authorities will contact the qualifying businesses directly.

In addition

- A £25,000 grant will be provided to retail, hospitality and leisure businesses operating from smaller premises, with a rateable value between £15,000 and £51,000.
- Small business grant funding of £10,000 for all business in receipt of small business rate relief or rural rate relief.



Managing Staff Costs

For many of us this is our biggest cost and in practice the most challenging to manage.

The government has introduced the Job Retention Scheme (JRS), the full details of which can be found at https://bit.ly/WWC_JRS and our FAQ here https://bit.ly/WWC_JRS_Detailed.

The overall objective of the scheme is to keep people at home while enabling employers to retain staff who would otherwise be made redundant and will be required when they begin to rebuild their businesses in the future. This will enable work to begin again with a critical core who have the necessary knowledge.

Unlike many of the other government initiatives this scheme provides for an absolute cash saving, rather than simply a cash deferral, in that the grant covers the full cost of each employment up to £2,500 gross per month per employee plus the associated Employer National Insurance and Pension Contribution.

However a furloughed member of staff must not work for the employer during the period of furlough (a minimum period of 3 weeks). You will need to make an assessment of your business needs over that period; match your staff cost to your immediate revenue as far as is possible (for some this is easier than for others). If you cannot furlough your staff because you have some committed work that they need to work on is offering reduced hours an alternative (subject to HR advice).

Communicate with your staff. They will understand and want to help where they can.

Coronavirus Business Interruption Loan Scheme (“CBILS”)

The Coronavirus Business Interruption Loan Scheme (CBILS) provides financial support to smaller businesses (SMEs) across the UK that are losing revenue, and seeing their cashflow disrupted, as a result of the COVID-19 outbreak. Full details of the scheme can be found at https://bit.ly/WWC_CBILS.

Anecdotal evidence is that many businesses are finding the process challenging, in particular around the issue of personal guarantees. The British Business Bank have confirmed that The Big Four banks have agreed that they will not take personal guarantees as security for lending below £250,000 but the interpretation of this statement is inconsistent at best. More needs to be done to get the banks lending to the businesses that need it.

However there is one fundamental fact that applies to CBILs and all actions taken to defer payments; they will still need to be paid. The decision you need to make is whether the access to finance will enable your business to trade out of any short-to-medium term difficulty or do you need to consider other options in addition to this. Are there other actions you can take to restructure the business? Of course this is a very wide question but if you have not yet asked it now is as good a time as any.

Preparation of Cashflow Forecasts

You need to be able to pull together all the actions you have taken to see what the overall impact is on your business. Depending on the nature of the business you do not necessarily have to prepare sophisticated forecasts but all businesses should prepare a rolling 13 week cash flow and keep it updated on a regular (daily?) basis. This will help you identify the crunch points in that cash flow. Of course cash flow forecasts are based on making assumptions about the future but in such a fast changing environment this is difficult for anyone. Stress test your assumptions by considering the impact of different scenarios. Consider what your response would be to them.



Finally

We live in uncertain times. There are no easy answers but if you just want to talk through your options call us.

Summary

1. What is my current cash position?
2. Credit control is key
3. Get your invoices out
4. Review all your overheads
5. Talk to your customers
6. Talk to your suppliers
7. Talk to your bank
8. Talk to your employees
9. Have you used all the government schemes available to you?
10. Prepare a 13 week rolling cash flow forecast? When are your crunch points?

If you have concerns or questions, please contact us on 01932 830664 or a member of the WW Creatives team.

