

Coronavirus Cashflow Checklist

The disruption that we are currently experiencing will effect businesses in just about every way imaginable.

When businesses are facing changes, whether that's sales disappearing, costs increasing or even when there is new sales growth, its always cashflow where the ramifications are felt. It goes without saying therefore that an up to date cashflow forecast is the one financial report that you should be looking at above any other.

But when your time is taken up trying to fight the fires and negotiate with every customer and supplier that you have it can be difficult to find the time to model all the changes on a cashflow forecast and it's easy to skim over the implications in a hurry to get on to the next job.

Here's our checklist for the changes to consider when you're assessing what the impact of this disruption will be:

Duration

Before you start looking at the detail, think about how long you expect your business to be affected by the shutdown that COVID-19 has brought. This will be different for every business, but it seems realistic to look at 3 to 6 months in the first instance.

Perhaps you need to be more nuanced than a simple "the next 6 months looks like this" approach – what if there are 3 really bad months, and then a slow recovery over the next 3?

Sales

Realistically, what sales do you expect to continue? In some cases it's been easier to cut sales right back to zero in order to see what the impact is. After that every sale that does go through is a positive.

The whole point of a Cashflow forecast is to look at the timings of what happens. So for the sales that you expect, when will the customers pay? If they've been badly hit too it may take them longer to pay than previously.

There may of course be new opportunities as a result of the current disruption – if you have been one of the businesses who have had to pivot to selling direct to consumers you are (hopefully) taking payment at the time of sale, which might be faster than previously.

Customer accounts

If you've been offering longer settlement terms remember to consider sales made before all this started; is it realistic to expect those invoices to be paid on the due date? What would you say if you were asked to delay/ stagger payment over a longer period?

Payments for supplies

Depending on what you buy in as supplies there are variety of ways to be affected here. Hopefully this will change in line with the effects on your sales, and specific to your business. The key point is that the effect on Cashflow is all about when you pay for them, but if you can access cheaper supplies (for example) right at the moment you can factor that in.

Staff costs

Lots has been published already about accessing the government's furlough scheme, or JRS. It provides a lifeline to businesses who have seen their sales evaporate. But what happens about payments?

Current thinking (early April) seems to suggest it may be June before the Government gets its systems running – so you will have to make payments to staff, albeit at a reduced rate, and wait until June to get reimbursed. How much Cashflow does this take up?

Staff who have been furloughed still pay PAYE and National Insurance on their wages. This will reduce your monthly payments to HMRC, but you will still need to make them unless you arrange a "Time To Pay" arrangement with them. What implications does this have?

With staff whom you can't furlough, can they work reduced hours? Or will they accept a pay cut? All these options need to be discussed with staff directly as it would be varying their contracts.

Overheads

The changes to overheads will vary depending on your business but in simple terms there are three options for the cashflow: minimise, avoid and delay. There will have been a lot of negotiation already so you need to fit the results into your forecast.

Business rates are taking centre stage at the moment – is your business eligible for a rates holiday, or do you qualify for Small Business Rates Relief, in which case you should be getting a £10,000 (or even £25,000) grant from your local council. The payment process for this hasn't been published yet however, and it may take some time before the cash arrives in your bank.

Remember also to consider irregular payments like marketing kick backs – if these relate to "before Covid" sales how does this impact your cashflow now?

Insurance

I'll put insurance in here as it usually only features as an overhead. Are you expecting to claim on business insurance? If so how much for, and when do you expect to receive the money? This could make a big difference to the cashflow.

Balance sheet items

This covers all those things that don't feature on your regular trading accounts.

Loans – what repayments will continue? Can you ask for a payment holiday? Funding Circle typically allow you to defer up to three months payments so long as you notify them in advance. This could help cashflow in the short term.

VAT – the Government announced that VAT payments due between March and June 2020 may be deferred until March 2021 at the latest. This may create an easy, interest free loan opportunity for your business. However March 2021 is not that far away so (as with any loan) you need to have a plan for making the repayment.

Corporation Tax – the Government has also said they will accept late payments of Corporation Tax, if arranged on a "time to pay": will this help your cashflow?

Recovery

Recovery is what we all long for – back to business as it used to be. A good cashflow forecast will extend to 6 or even 12 months after the disruption forecast above has finished.

In this next section of the forecast make sure you include:

- Additional/ increased loan repayments to cover any of the loan payment holidays or additional borrowing that you took on to survive this period.
- Don't forget the VAT and any other tax bills that you have deferred earlier in the forecast.
- The cost (and therefore cash required) of replacing stock so that you can service renewed customer demand.
- Any other growth costs: in the most basic case you will likely be paying your staff before your customers have paid you.

You need to make sure that your business has the power to recover when your sales opportunities arise, and that is all down to cashflow.

What next?

Once you have your forecast in place it will give you a starting point for discussion with funders and for any loan or overdraft applications that you need to make.

Remember to keep it updated as real life unfolds and you have better information available.

If you want help putting together a cashflow forecast to see what the future looks like then give us a call and speak to Susie.