

A Guide to Managing Cashflow during the Coronavirus Crisis

Updated – 24th March 2020

One of the biggest worries or fears for businesses owners at the moment is handling cashflow during the uncertainty arising from the current Coronavirus crisis. You and your business are important to us, and we aim to support you as best possible during what is to be a difficult time. In order to have a positive impact on cashflow and look to alleviate some of the more short term pressures and fears, this guide aims to advise businesses on a step by step system to follow, rather than just provide generic tips.

This guide covers the following steps:

- Do I have a cashflow problem?
- How do I reduce my cash outflows?
- How do I bring more cash in to the business?

Step 1 - Do I Actually Have a Cashflow Problem?

Sometimes worry can be irrational, however sometimes it can be a good thing and our body's natural reaction to a real threat – we've all been there. It's important to firstly take stock and assess whether or not your business actually has a cashflow problem. Due to the nature of the situation and the ever evolving flow of information and guidance from the government, it is essential this step is completed every couple of days as new risks to supply chains, your customers and your business arise.

In order to assess cashflow and establish if you do have an issue, you must first identify both your **cash burn** and your **lowest forecasted cash balance**.

Cash Burn

There are various methods of calculating cash burn, the most simplistic of which being the following:

- Plot expected cash inflows and outflows on to an excel sheet on a weekly basis and over a set period. The government has suggest the most vulnerable self-isolate for up to 90 days – that means 3-6 months could be realistic
- If you are struggling to predict exact cash inflows (i.e sales pipeline) over that period, work on multiple scenarios
- Ensure you have included all payments of loans, other debts and that you have included VAT (where applicable) on revenues in and payments out
- Using the spreadsheet you have created, you should now have figures for both your opening cash balance, and forecasted closing cash balance
- **Cash Burn** is calculated as **(Opening Cash Balance + Closing Cash Balance)** divided by weeks in the assessed period (cash burn per week) or months (cash burn per month)
- Your sheet should also highlight your **lowest forecasted cash balance**

Worked example

If opening cash in week 1 is £30,000 and closing cash in week 25 is £-90,000, cash burn would be $\frac{£120,000}{25} = £4,800$ or £20,000 per month deficit. We must not ignore any weeks, which may fall lower than the closing balance of £-90,000 however.

An increased cash balance across the period would indicate you do not have a cash burn, and cashflow issues are likely to be limited. It is however still important to identify and assess your lowest cash balance.

Debtor and Creditor Days

The above two metrics are crucial in being able to continually monitor your working capital cycle. Debtor days calculate the speed in which your customers are paying you and creditor days calculate the speed in which you are paying your suppliers. If your debtor days go up, it means customers are paying slower and therefore will impact cashflow unless creditor payments (and therefore days) are managed effectively.

Debtor and Creditor days are calculated as follows:

Debtor days	Creditor days
$\text{Debtor days} = \frac{\text{Trade debtors}}{\text{Revenue (sales)}} \times 365$	$\text{Creditor days} = \frac{\text{Trade payables}}{\text{Cost of sales}} \times 365$
<div style="border: 1px solid #0070c0; padding: 5px; background-color: #fff9c4;"> <p>Example</p> <p>Revenue = £21,450k Trade receivables = £4,030k Debtor days = 68.6 days</p> </div>	<div style="border: 1px solid #0070c0; padding: 5px; background-color: #fff9c4;"> <p>Example</p> <p>Cost of sales = £13,465k Trade payables = £2,310k Creditor days = 62.6 days</p> </div>

Make sure you update your cash forecast used to calculate cash burn with any changes in debtors and creditors days identified from your calculations above.

What else can you do to manage risk around your customers and suppliers?

- Review your customers regularly for credit worthiness, highlighting any high risk sectors such as Hospitality, Leisure, etc . Using a credit reference agency to support here may help make the right decisions on extended credit terms, limits, etc
- Review your supply chain. Understand where goods or raw materials are coming from and if there are any expected delays, which may impact on the coming days or weeks

If after completing the above calculations, you believe you will be facing cashflow issues, the next part of the guide explores the options available to you in order to begin to impact the effect on your business.

Step 2 – How Do I Reduce My Cash Outflows?

If after calculating your cash burn you have identified a cash deficit, you will need to look at ways of reducing or managing your cash outflows.

The following list is not exhaustive but shortlists what we believe are the most impactful solutions.

Suppliers

When cash is restricted, the temptation is to make late payments. This must be resisted where possible, if only for reputational reasons. We would advise contacting suppliers before cancelling direct debits or withholding payments and attempting to negotiate short-term improved credit terms or payment plans. Do not ignore the opportunity to negotiate discounts with suppliers if stockpiling is required in your industry.

It may not feel like at the moment but your product or service will still be required once this crisis ends – your reputation will be as important then as it was just a few weeks ago.

HMRC

The good news here is that HMRC are able to support businesses by supporting time to pay arrangements and offering a VAT holiday until 30 June 2020. Mr Sunak announced on the 20th March 2020 that any VAT liabilities due until 30 June 2020 would not be payable until the end of the financial year, 5 April 2021. We understand from discussions with HMRC that all VAT returns must be submitted on time and anyone paying via Direct Debit in April to June 2020 inclusive must cancel their direct debit to HMRC in respect of that quarter or monthly VAT payment only. Interest will also not be charged as the due date for VAT payment is now the end of the financial year.

Aside from VAT (until 30 June 2020), other HMRC time to pay arrangements are agreed on a case-by-case basis and are tailored to individual circumstances and liabilities. We can recommend that businesses contact HMRC's new dedicated COVID-19 helpline, operational since the 11 March 2020 for advice and support.

To ensure ongoing support, HMRC have made a further 2,000 experienced call handlers available to support firms and individuals when needed. If you are concerned about being able to pay your tax due to COVID-19, call HMRC's dedicated helpline on 0800 0159 559.

Finance Providers

Speak to your finance provider in relation to any loans, asset finance, leases and other debts requesting a payment holiday. The UK government is working closely with insurers and banks to ensure they are actively supporting businesses and therefore a provider's stance can change one day to the next. On this basis, your funder may reject a payment holiday one day but accept it the next day so please do be persistent!

Subcontractors/Employees, including Coronavirus Job Retention Scheme

Employment law or HR advice is incredibly important here in advance of making redundancies, varying employees contracts or furlough employees.

Statutory Sick Pay

The first line of support the government announced in the March 2020 budget was in relation to Statutory Sick Pay.

- SSP is payable from day 1 of sickness (both for those who have COVID-19 or have been advised to self-isolate)
- Staff do not need a 'Fit Note' from a GP – instead notification via NHS 111 when advised to self-isolate is sufficient to both satisfy employers and take pressure off GP's
- Employers with fewer than 250 employees as of 28 February 2020 can reclaim SSP for every employee for up to 14 days
- It remains important to maintain records of absence but do not need a formal doctors note

Coronavirus Job Retention Scheme

On the 20th March 2020, Mr Sunak announced the **Coronavirus Job Retention Scheme** commencing March 2020 for three months. Mr Sunak did clarify that this grant could be extended further than the three month period if necessary. We know the following about the grant:

- This is a grant and will support wages paid through PAYE in the UK
- HMRC have made it clear they expect you to designate staff members as a "Furloughed Worker"
- A maximum grant of 80% per furloughed employee per month capped at £2,500 will be available

- Anyone earning £37,500 per annum will be covered for up to 3 months but Mr Sunak did say he would extend this period if necessary
- The scheme does not have to include every employee, it's for the employer to decide which workers are not required and are therefore to be furloughed. To qualify, the staff member must not work during the periods administered by HMRC and available for employees being "furloughed"
- The scheme is available for all employers – charities, large, medium and small companies; basically anyone operating a PAYE scheme

Non-essential spending

It is of course always advised to review all costs and reduce discretionary or non-essential expenses as far as possible on a regular basis, however this review has never been so important.

Step 3 – How to Bring More Cash In to the Business

After highlighting the cashflow issue using the cash burn calculation in step 1 and using step 2 to manage/reduce cash outflows, you may still be encountering cash challenges. You must also explore how you could bring additional cash **in** to the business.

Coronavirus Business Interruption Loan Scheme (CBILS)

As announced in the 2022 budget and updated on the 17th March, the UK government has announced a huge £330bn support scheme, available in the form loans, debtor finance and asset finance, up to the value of £5m. CBILS means the government can guarantee an element of the finance should the business default, making it in theory less risky for banks to make finance available.

We have discussed the CBILS application process with many of the prime banks and understand the following key points apply:

- Initial interest free period of 12 months with any interest thereon being “competitive”. Interest rates are on a case by case basis but rates between 4-7% have been quoted to us by prime banks
- Loans and asset finance terms can be up to 6 years
- Overdrafts and debtor facilities can be up to 3 years
- The business must have been solvent (profitable and therefore could’ve ordinarily passed bank affordability tests) prior to the crisis
- The quality of application will dictate the speed and success of the . A business plan, forecasts, up to date management information are minimum requirements
- Loans of up to £250k, at lenders discretion can be unsecured
- Businesses must apply for CBILS via their existing bank only
- Unsecured applications are expected to be completed (if application is comprehensive) in 2-4 weeks.

Working Capital Finance

The CBILS backed facility is designed to support businesses who may struggle to raise credit during the Coronavirus – however many businesses may not need to go down the CBILS route, accessing potentially much faster forms of finance. Some businesses may also only need access to working capital facilities such as debtor finance or stock finance to improve cashflow over a 3-6 month period.

Outside of the high street banks, there are over 350 lenders who are able to lend against various forms of security, debtors, property, EPOS, online trading and so on.

Before applying for any finance, it is incredibly important to speak to a member of the Harlands team to ensure the finance applied for is the best option for your business, and the application is positioned in a way which gives it the best possible chance when being assessed by banks.

Grants (excluding the employment grant)

The UK government announced just yesterday, 17 March, there are a few Coronavirus specific grant options available.

The government will introduce a business rates retail holiday for retail, hospitality and leisure businesses in England for the 2020 to 2021 tax year, commencing 1 April 2020. It is understood that this happen automatically and no application is required.

A £25,000 grant is to be provided to retail, hospitality and leisure businesses operating from smaller premises, with a rateable value between £15,000 and £51,000. In order to apply for this grant, you need to contact your local council, with any grants expected to be available from 1 April 2020.

The government will also provide additional funding for local authorities to support small businesses that already pay little or no business rates because of small business rate relief (SBBR). This will provide a one-off grant of up to £10,000 to businesses

currently eligible for SBRR or rural rate relief, to help meet their ongoing business costs. Our understanding is that your local authority will contact you – you do not need to be apply for this.

Research & Development Tax

R&D Tax is a great government incentive available for companies to access Corporation Tax relief or even refunds based activity such as developing new products, processes or services or improving any products, processes or services. Let us know if you have completed any activities mentioned above in the last two years as your business could be eligible for up to 33% of the amounts spent back in cash or Corporation Tax relief.

Timeframes for any refunds in relation to R&D Tax credits were around 6 weeks prior to the Coronavirus crisis and it is unknown at this point whether or not this timeframe will increase or decrease over the coming weeks.

Business Interruption Insurance

Many insurers have advised they are unable to cover any losses as a result of the Coronavirus due to various reasons. However, on 17 March, the UK government advised that insurers are “stepping up to the plate”, meaning its worth speaking to your insurer regularly as advice from them that you’re not covered one day may well change the next day.

Updates since the 17th March are more positive and we understand the Association of British Insurers (ABI) are working with insurance companies to assess how they can include the disruption caused by Coronavirus on many UK businesses.

Summary

I hope that by following this guide, you are able to stabilise cashflow and gain some peace of mind in relation to your business and its cashflow over the following weeks and months. We strongly advise completing the above steps regularly as new information from the government, your customers and suppliers becomes available.

Once cashflow is under control, it's incredibly important we continue to move forward as a business community as that is a key factor to how quickly our economy bounces back post crisis.

Protection of Assets

It is possible, with advice from your Tax Advisor and an Insolvency Specialist to turn your trading business in to a group. This group may allow you to protect various assets should the trade element of the group suffer post Coronavirus. This restructure may - if executed well - allow you maintain control of property, cash and intellectual property should your business fail in the future. We can't stress how important it is to take the relevant advice prior to moving ahead with a reorganisation.

Developing new products or services

Once cashflow is stabilised, some businesses may find themselves with downtime across their team. It's important to remember, business will continue post Coronavirus and we all need to be prepared for that, which means we may be able to turn this downtime in to a real positive.

One way to do this is by spending time on developing existing or new processes, services or products, which may make you more competitive post crisis. There is a lot of research and information available publicly that the best businesses are constantly evolving their systems, processes and products and at a faster pace than their competition. You may also receive R&D tax credits up to 33% of the money spent on

wages, materials or subcontractor's time directly associated with improvements or creation of new processes, systems and products, which is an added bonus.

Look for new customers

It's expected our economy will take a hit during this period and the impact of that is unknown. However, the impact of this pandemic has started to decrease in some countries such as China and South Korea and therefore their economies are starting to recover.

Many businesses offer products and services that have demand in other areas of the world but haven't found the need to really explore these opportunities. It's also possible to work in partnership with some of your competitors or other businesses to actually fulfil larger orders.

If you have any ideas, speak to your formal and informal network, your team, competitors where suitable, your supply chain and so on. The Department of Industry & Trade and many banks have existing opportunities available within their networks for certain products and services.

As always the Harlands team is here to support you, and especially so during such challenging times. If there is anything in the above guide or otherwise you would like discuss in more detail or explore how it may work for you, please do not hesitate to contact us by email on info@harland.co.uk or speak to a member of our team on 01207 581717.