

Safeguarding your cashflow

Following the global outbreak of Coronavirus, and the restrictions that have been implemented as a result, Companies are experiencing a different 2020 than they would have forecast. Most are suffering from reduced revenue and in many cases additional expenditure to make their work environments and business practices "COVID compliant".

While there are some who were able to benefit following the restrictions that were implemented by the UK Govt. it has presented Companies with a number of operational and financial challenges. Govt. assistance via the Job Retention Scheme, VAT deferral, moratorium on forfeiture from landlords, introduction of CBILS and other loan schemes have eased cashflow pressure for many companies through the first 3 quarters of 2020.

Although some Government assistance is continuing through into Q4 2020 and into early 2021, this is significantly reduced. This along with the suspension of liability for wrongful trading expiring on 30th September 2020 means many directors will need to question if their business is able to continue to operate as a going concern.

We are already seeing the impact of a second winter spike and, in some areas, a return to near-Lockdown restrictions. The uncertainty and constant changes to Government policy does not make planning easy and many are therefore taking a short-term view. The reality is that trading environments are likely to be Covid impacted for at least 1-2 years and the best performing businesses will be those that are able to take a longer term view and plan accordingly.

Below are some of the things to consider when preparing forecasts for the longer term.

Firstly review your business....

- Review how your business has performed against forecast to date and against 2019 performance. If monthly information is available, use that and overlay that with the timeline of the UK Govt easing the lockdown which may help identify how certain restrictions impacted your business the most.
- How have your competitors fared locally and nationally? Will there be an opportunity to attract new customers to your business?
- What liabilities have accrued as a result of the measures introduced by the

Govt.

- How did the business perform in the months June to August as restrictions were eased and some normality was restored? This may be a more realistic representation of what the 'new normal' is for your business.

Assess your customers and your supply chains

An important factor in preparing your forecasts will be to understand how your customers and suppliers have fared during 2020.

- Review your Debtors (Receivables) Ledger for any signs that customers may be struggling with aged debts / outside credit limits?
- Do you supply any industries that would appear to be susceptible to failure?
- Have your customers' behaviours changed as a result of the pandemic?
- Were there any shortages of any key materials/ supplies during the pandemic? Is this set to continue?
- Have any suppliers stopped trading/ will they likely be under financial pressure? What impact will this have on prices in the market if a supplier becomes insolvent?

"The first step for many will be to take stock of 2020 and prepare realistic reforecasts for 2021"

What savings can be made?

Have you been able to identify any potential operational savings as a result of the pandemic? Such as;

- Are you able to operate with less staff?
- Are you able to operate from smaller premises?
- Are you able negotiate any improved supplier terms or reduced rent?

Fully intergrated Forecasts

Where possible you should prepare fully integrated balance sheet, profit and loss, and cash flow forecasts. These will allow you to best assess how different movements in your business will affect your financial statements and the reliability that you can put on them.

For instance, placing too much focus on a short to medium term cash flow may disguise underlying profitability issues and looming liabilities. The current Government support available may make it seem as though the business is coping when actually more serious issues are being deferred.

Communication with your lender

- In your forecasts have you identified any covenants that may be breached?
- Have you identified any additional funding that may be required? If you act quickly you may be able to avail of a CBILS loan before applications close on 30 November 2020.
- In our experience, early communication with your lender is key. If you are able to identify any issues in your forecasts, your lender will be in a better position to help you and work with you to find a solution.

Contingency Plan

There remains a great amount of uncertainty at present as to what the UK Government and other national leaders will do to combat the seemingly increasing spread of Coronavirus and the impact this will continue to have on the UK and world economies.

Whilst it is not feasible to plan for every eventuality, contingency plans should be made to take into account likely events such as;

- Key customer and supplier failure;
- Further lockdowns; and
- The likely rise in unemployment.

If you would like any assistance in preparing or reviewing your forecasts, we would be happy to assist. If you have any queries please contact Tom Straw and we will see how we can help your business through this difficult time.



If you would like to discuss how Moorfields can assist you in preparing or reviewing your forecasts please contact: **Tom Straw: 020 7186 1144**

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