

Coronavirus (COVID-19) guidance note: Stripping Back Your Cashflow

The challenges our sector is facing are great and to ensure we stay resilient as businesses, we need to prepare for those tough financial times ahead over the coming weeks and months. But how do social businesses actually do this, what should they consider and where do they start?

This briefing note is intended as a means of signposting you to useful information and resources related to finances during this pandemic. We will be updating this briefing regularly as more resources and advice become available.

Many of the links in this document are to external websites; we share them in good faith but we have no control over their content or accuracy.

1. Back to your Foundations:

For many organisations, there may be two approaches they need to consider, the first is a 'hibernation' mode and the second is a 'back to foundations' mode. Hibernation mode will be the preferred option for many organisations operating in the leisure, hospitality and retail sectors who have been forced to close their doors to the public.

For many, there will be no other way of trading or offering their service, so they will have to put the majority of their staff on furlough and maintain one or two key employees who will be responsible for:

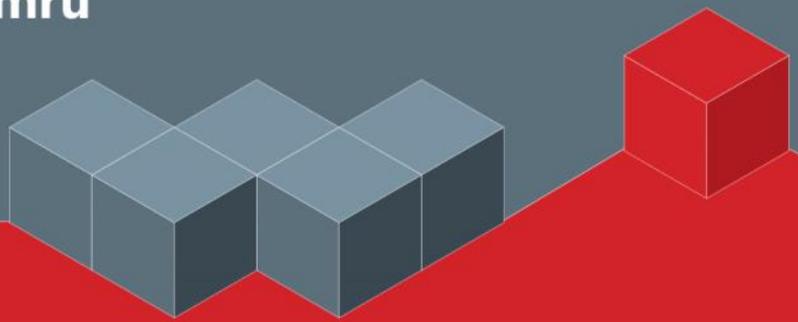
- Ensuring insurances and licences remain in place
- Ensuring premises are secure
- Maintaining a social media presence to keep customers engaged
- Managing finances, including payroll

This will have to remain in place until the restrictions are relaxed.

Social Business Wales have developed more information on furloughing staff:

<https://wales.coop/wp-content/uploads/2020/04/WCC-Coronavirus-Job-Retention-Scheme-002.pdf>

Despite going into hibernation mode, organisations will still have to look at stripping back their cash flow and identifying which costs can be minimised to enable them to be in as strong a position as possible to start again after this period.



The 'back to foundations' mode is where an organisation's service delivery is affected by the Covid-19 outbreak but they are still able to trade albeit with a slimmed down, basic service compared to that which they usually deliver. In the back to foundations model the organisation will need to assess what services they can deliver safely over the next few months and how they can strip their staffing and finances down to that basic service as income levels will be affected despite them still trading.

2. Income:

The first step is to look at how your income streams will be reduced. Financial forecasting can be quite difficult in times of such uncertainty but it's a vital first step to identifying where your income comes from and how it is likely to be affected over the next 3, 6, 9 and 12 months.

Consider how you generate your income, what ongoing Service Level Agreements (SLAs) or grant payments will come in? Operating a reduced service level may affect your income from SLAs, so speak with contractors to find out how this will affect your income. Will you be able to generate any trading income? Be realistic and prudent when compiling your projected income.

Cash Injections: – are a way of plugging the gap. There are many options available to organisations such as introducing **reserves**. Many organisations have spent years building up their reserves for a rainy day and it seems that our rainy days have all come at once, so where possible look at introducing the reserves and work out the most appropriate time to do this. It's important that reserves are used correctly and where possible, seek professional advice.

The Charity Commission has issued guidance to charities including the use of restricted and unrestricted reserves during this outbreak:

<https://www.gov.uk/government/news/coronavirus-covid-19-guidance-for-the-charity-sector>

Speaking with banks about introducing or extending overdraft facilities is also another option, all banks are looking to help out during these unprecedented times and some are offering interest free overdrafts.

Social Investors and lenders are also looking at how they can help, by developing new emergency bridging finance options and offering capital repayment holidays on existing loans.

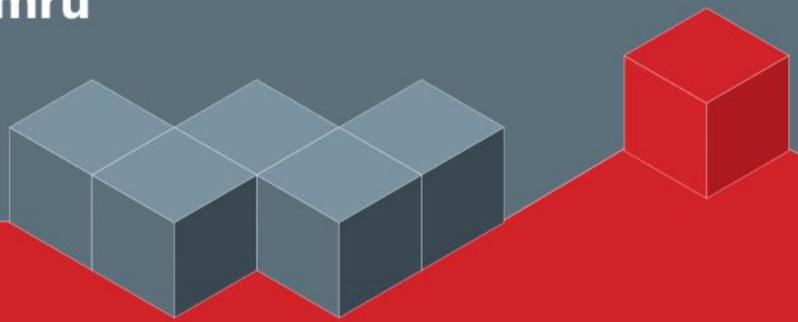
Social Investment Cymru have launched emergency bridging loans for the sector:

<https://wcva.cymru/emergency-fast-track-loans/>

Development of Bank Wales are offering repayment holidays for existing customers and delivering the £100m loan fund on behalf of Welsh Government:

<https://developmentbank.wales/coronavirus-support-welsh-businesses>





Good Finance website contains an easy-to-use lists and links from over 25 social investors:
<https://www.goodfinance.org.uk/latest/post/blog/social-investors-respond-covid-19>

Review any outstanding invoices and money owing to you, issuing invoices and chasing payments could lead to an injection of cash.

Welsh and UK Government and funding bodies are developing **grants and support packages** in response to the coronavirus outbreak to help social businesses with the impact of the loss of trade and staffing costs. These can provide a much needed cash injection into the business and should be fully utilised where possible. We have developed a road map of support:
<https://wales.coop/wp-content/uploads/2020/05/Road-Map-of-support-v2-eng.pdf>

Further information on the funding options available can be found on:

Social Business Wales: <https://businesswales.gov.wales/socialbusinesswales/sites/https://wales.coop/wp-content/uploads/2020/05/Finance-factsheet-English-v4.pdf>

Welsh Government: <https://gov.wales/coronavirus-covid-19-support-for-the-third-sector-html>

UK Government: <https://www.gov.uk/government/publications/guidance-to-employers-and-businesses-about-covid-19/covid-19-support-for-businesses>

Funding Cymru: <https://funding.cymru/pages/coronavirus-latest/>

It's important to consider when you are likely to receive any **cash injections** into the business as delays need to be accounted for to ensure you don't find yourself in a negative cashflow position and short term borrowing may be needed to cover any gaps.

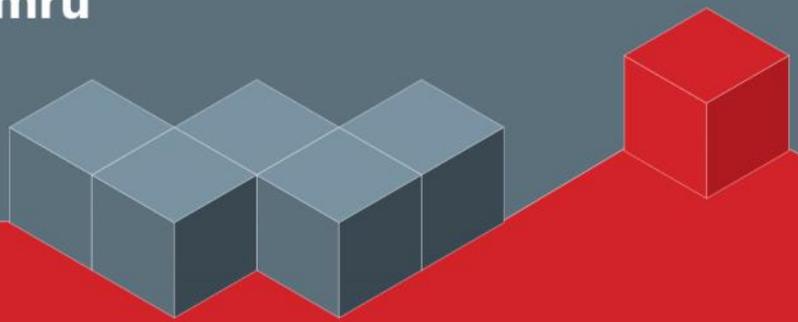
3. Outgoings:

The next step is to look at your outgoings to assess where you can make temporary cuts and savings to help you survive this period. What and how much you can cut will depend on whether you are going into hibernation mode or stripping back to your foundations.

Understanding and identifying what are fixed costs and variable costs will be the first step in assessing what can be reduced and what will remain constant.

Business Wales have useful information on understanding your costs:

<https://businesswales.gov.wales/starting-up/finance/understanding-costs#guides-tabs--1>



When you are trying to strip back and save costs, as an organisation you will need to consider how you can make savings to:

- **Staffing:** this is usually the highest cost for organisations, so you will need to consider which staff you need to deliver the stripped back services.

Social Business Wales have developed guidance on HR and furloughing

<https://wales.coop/wp-content/uploads/2020/04/WCC-Coronavirus-Job-Retention-Scheme-002.pdf>

- **Loans & mortgages:** speak to your bank about deferring capital payments.
- **Suppliers:** speak to them about delaying payments. Including gas and electricity suppliers. Most are trying to be supportive and may be able to put payment plans in place which will reduce your monthly outgoing in the short term.
- **VAT & Tax:** HMRC have developed Time To Pay scheme and delayed VAT payments as a means of injecting short term cash savings into businesses Their helpline is 0800 024 1222.
- <https://www.gov.uk/guidance/deferral-of-vat-payments-due-to-coronavirus-covid-19>
- <https://www.gov.uk/government/publications/guidance-to-employers-and-businesses-about-covid-19/covid-19-support-for-businesses#support-for-businesses-paying-tax-time-to-pay-service>

Always consider the impact of cutting costs on delivery of service and legal obligations, seek professional help if you need support identifying what to cut.

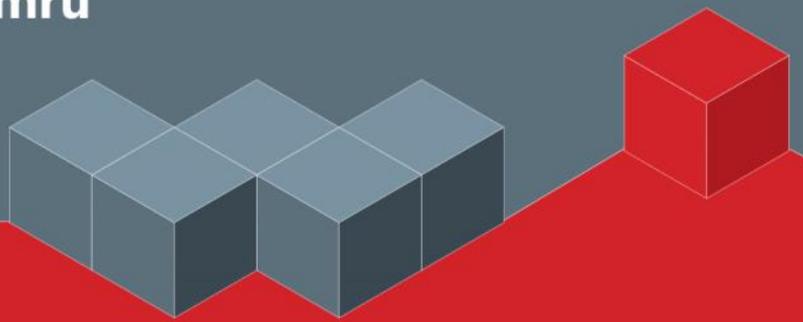
4. Cashflow Monitoring:

Funders and lenders will expect evidence of how the Covid-19 pandemic is affecting your business and cashflow, they will need you to demonstrate the variation between normal cashflow and the stripped back finances. Historical accounts and management accounts will be compared to new projections showing what you expect your income and expenditure to be over the next 3, 6, 9, and 12 months. The cashflow projections should clearly show how you have tried to maximise government support schemes, used reserves (where possible) and other cash injections to minimise the effects as well as how you have cut your costs accordingly. You should also include prudent and realistic estimates of how you expect your trading income to return over the period. Preparing these projections will allow funders to identify your residual spend and what the shortfall figure is that you need to cover the next 6 or 12 months to stay in business.

Business Wales have a step-by-step guide to cash flow forecasts:

<https://businesswales.gov.wales/starting-up/managing-your-finances/cashflow-forecast#guides-tabs--0>





Producing forecasts and monitoring cashflow will be a part of any funding/loan applications. But even once this exercise has been done, it will be really important to keep an eye on cash flow as it is essential to monitor and update forecasts and management information monthly so that your business can be agile and adaptive to changes.

Stress testing the figures will enable you to gauge how positive or negative changes will impact upon your cash flow and allow you to put contingencies in place.

5. Implementing Plan B:

Once you have identified what your stripped back provision is and put the necessary steps in place to cover the costs, it will then be time to think about your plan B. Consider how are you going to gradually wake up from hibernation mode or build up from foundation mode when the restrictions start to be lifted. Are there small steps you can take over next 3-6 months to start bringing in trade and income? Consider things like:

- Pay forward schemes.
- Alternative delivery.
- Gift vouchers.
- Keeping your client based engaged through communications and updates.

Events are moving quickly and we are working as a team to develop specific tools, advice and resources that will become accessible in the coming days and weeks so please watch out for our email updates and [check on our website](#) regularly too.

If you want to talk to one of our Business Advisers give us a call on 0300 111 5050 or e-mail sbwenquiries@wales.coop **and we can arrange a call back.**

Key Links:

- [Public Health Wales statement \(updated daily\)](#)
- [Public Health Wales latest information on COVID-19](#)
- [Welsh government information for individuals and businesses](#)
- [Business Wales covid-19 advice for businesses](#)
- [UK Government general advice on coronavirus](#)
- [UK Government advice on coronavirus \(for employers, employees and businesses\)](#)
- [NHS Direct Wales COVID-19 symptom checker](#)