

Coronavirus (COVID-19) Guidance Note: Stripping Back Your Cashflow - Revisited

The initial covid-19 outbreak in March forced many businesses to review their business models and operating costs during the first outbreak. The stripped back cashflow enabled social businesses to either continue operating, possibly on a reduced scale, hibernate until conditions improved or pivot the business model into a new form of delivery or market.

Almost all social businesses had also used their stripped cashflow forecasts as a foundation for their post covid models and planned recovery. The resurgence of the disease and reintroduction of tighter restrictions and local lockdowns, combined with slower economic recovery has meant progress and recovery plans may no longer be realistic or achievable. Additionally, with less financial support packages available during a second wave of the pandemic and a greater understanding of the impacts upon businesses, re-examining cashflow has once again become top priority for most business leaders.

This briefing note has been developed to guide social businesses in the process of re-evaluating cashflow and developing a leaner stripped back model to navigate the next stages of the pandemic. It 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. All of the information and links we provide in this guidance note are shared in good faith and current at the time of publishing this guidance, we recommend that you keep up to date with announcements and changes to schemes, so please check the links regularly.

The Importance Of Cashflow Planning:

All businesses know the importance of cashflow planning, it can identify how much money or investment you need to operate your business. It is critical in the early stages but equally as important as businesses develop or go through tough financial times. The covid-19 pandemic has stress tested finances and cashflow with falls in demand, forced closures, low consumer confidence levels and changes in consumer habits.

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Setting time aside to review your cashflow position and to update your cashflow projections is vital. It can be dejecting to have to face this task again but identifying where the crunch points in cashflow may be and how they can be counteracted will show your readiness to be able to survive this next wave and challenges that lay ahead and how resilient your social business is.

Social Business Wales recently held a finance update webinar, to access the recording and useful resources click here:

<https://padlet.com/SocialBusinessWales/4akxrm89sp08re5g>

Review & Assess The Last 6-9 months:

Social businesses were quick to adapt and change to the unprecedented market conditions experienced in March and the subsequent national lockdowns. For many organisations they had 3 options:

- (i) **Continue operating possibly on a smaller scale.**
- (ii) **Hibernate the business and place staff on furlough.**
- (iii) **Diversify into new delivery methods or new markets.**

Reviewing which option your social business took and how your income and costs were affected as a result is a good starting part. Consider what worked well and what could be improved in terms of income, costs and service delivery.

Social businesses have greater information and data this time around than during the first wave, so use the gift of hindsight, consider what you wish you had known then and the experiences and knowledge of the first wave to consider what you would/could have done better or differently. This can form the basis for your plan through the next stages of the pandemic and how you can manage your cashflow.

Step 2: Maximise Income:

The next 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 is a really vital first step to identifying where your income comes from and how it is likely to be effected over the next 3,6,9,12 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



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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 2020 is monsoon season. So where possible look at introducing the reserves and work out the most appropriate time to do this if you have any available.

Review money owing to you: look at any outstanding invoices and money owing to you and issue invoices or chase any payments due. This could lead to an injection of cash but be realistic about when this cash is likely to be received and remember to record it in the correct period that it is received not when expected as any time delays could negatively affect cashflow.

Advances: Also consider speaking to any funders or customers with SLA's in place and consider asking for an advance on any awards/contracts already agreed. Be mindful that this may provide a short term cash injection but the associated costs with delivery may be delayed, so you will still need to ensure that you have adequate cashflow at that later point in time to cover the costs of delivery including wages etc.

Welsh Government Support: The First Minister has introduced a range of financial support packages and grants to support Welsh businesses through the lockdowns, fire-break and beyond. Full details on the most up to date financial support available as well as useful information for employers can be found here:

<https://gov.wales/business-and-employers-coronavirus>

UK Government Support: In addition to Welsh centric support, social businesses are also able to utilise the support initiatives announced in the Chancellor's Winter Economy Plan. There is a useful diagnostic tool on UK Government's website to enable you to identify what schemes you could access based on your location, sector and size: <https://www.gov.uk/business-coronavirus-support-finder>



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Social Business Wales: has put together a guidance note on **lockdown finances** which outlines UK and Welsh government support schemes including grants, loans and other initiatives including wage subsidies and tax breaks:

<https://wales.coop/wp-content/uploads/2020/10/SBW-Guidance-Note-Lockdown-Finances-eng.pdf>

Banks: Speaking with your bank and any lender about introducing or extending **overdraft facilities**. All banks were quick to offer support during the first wave and are keen to continue supporting businesses and individuals during this tough economic time. Consider any associated costs or interest free periods available and make sure you factor any charges into your cashflow.

Social Investors and lenders: are also looking at how they can help. They initially offered emergency bridging finance options and capital repayment holidays on existing loans and are still keen to be supportive and develop financial support products to help businesses adapt to the new market conditions and survive the second wave.

Good Finance website contains lots of useful resources and guides as well as links to key social investors: <https://www.goodfinance.org.uk/latest/post/coronavirus-post/funding-and-investment-guidance>

Social Investment Cymru: are administering the **Third Sector Resilience Fund phase 2** - a blended finance scheme which offers up to £100,000. It is a blend of 75% grant and 25% loan with a 12 month interest free period. Further details of the scheme and eligibility can be found here:

<https://wcva.cymru/funding/social-investment-cymru/third-sector-resilience-fund-for-wales/>

Our webinar with **Alun Jones of Social Investment Cymru** discusses the details of the fund: https://www.youtube.com/watch?v=82NX7IFy_64



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Minimise 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: is usually the highest cost for organisations, so you will need to consider which staff you need to operate your business over the coming months. With government support schemes there may be options to access wage support initiatives through the furlough scheme which has been extended until March 2021. Details on the scheme can be found here: <https://www.gov.uk/guidance/claim-for-wage-costs-through-the-coronavirus-job-retention-scheme>

Reducing hours or restructuring may be another option that you have to consider to reduce your costs. **Social Business Wales** have developed guidance on HR, furlough and new job support scheme as well as a recent webinar on HR considerations during the next stage of the pandemic which can be accessed here:

<https://www.youtube.com/watch?v=TYO4uWk78ZA&feature=youtu.be>
<https://wales.coop/webinars-covid-19-and-social-businesses/>

Loans & mortgages: speak to your bank about deferring capital payments.

Suppliers: speak to them about delaying payments. Including gas & 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.



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VAT & Tax: HMRC have responded to the covid pandemic by introducing a number of tax and vat initiatives to support businesses as part of the winter economy plan, including the extension of the 5% VAT rate for hospitality and tourism businesses and the option for businesses who deferred their tax bills earlier in the year to make 11 smaller payments during the next financial year rather than 1 lump sum in March. Full details can be found here: <https://www.gov.uk/government/news/chancellor-outlines-winter-economy-plan>

Sick Pay: Eligible employers will be able to claim up to 2 weeks of Statutory Sick Pay (SSP) if you are claiming for an employee who's eligible for sick pay due to corona virus and you have a PAYE scheme in place on or before 28 February 2020. Further details can be found here: <https://www.gov.uk/guidance/claim-back-statutory-sick-pay-paid-to-employees-due-to-coronavirus-covid-19>

Develop A New Plan & Think Of All Scenarios:

Having considered what worked well and what didn't during the last 6-9 months and reviewing your income and expenditure, the next step is to develop your new cashflow forecasts.

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>

When you have your new cashflow projections it is important to stress test them. Think of different scenarios such as another forced closure, a drop in income, a loss of funding/SLA, a change in staffing requirements. Take these common scenarios and others and test how your cashflow is affected by them. Create several cash flows – optimistic, realistic, pessimistic.

Covid-19 has stress tested everyone's finances and it is important that you examine likely scenarios and think about the implications of the cash flow and what you are going to do. Are there times where you will need more funding? Can you reduce costs/increase income somehow? Can you obtain more credit? Considering the ways that the business might mitigate any risks and put contingencies in place will help you to maintain the cashflow needed to operate. It will also support any applications



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for grants or loans. Funders will want to see that you have considered different scenarios and planned for how you can overcome them.

Social Business Wales recently delivered a finance webinar that discussed scenario planning: <https://www.youtube.com/watch?v=TYO4uWk78ZA&feature=youtu.be>

Review & Update:

It is important to spend sufficient time on preparing the cash flow. It is also really important that you review your forecasts on an ongoing basis. By monitoring your actual spend against what you have forecasted and updating the forecasts will ensure they are live documents containing accurate information.

There are no set times to review, it will depend upon your individual business if you choose to review your cashflow on a daily, weekly or monthly basis. Frequency will also change at different stages of the business development cycle, for example it will become a more frequent task in times of financial difficulty or during a start-up period or launch of a new product/ service.

Need Further Help & Support?

If you need further help on cashflow planning, support may be available through Social Business Wales. Please contact your business adviser, or a member of our team.

Social Business Wales is here to help social businesses from the early development stages through to expansion, diversification and growth. We have a team of specialist business advisers and consultants who can offer bespoke one to one support to your organisation. If your Social Business needs help, please contact a member of our team to find out how we can support you:

Telephone: 0300 111 5050

Email: sbwenquiries@wales.coop

<https://wales.coop/get-our-help/support-available/>



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Useful Links & Resources:

Social Business Wales have developed a series of guidance notes, webinars and tools to support social businesses through the pandemic, they can all be accessed through the covid hub here: <https://wales.coop/covid-19-hub/>

Welsh Government have lots of useful links and resources for individuals and businesses to navigate through the pandemic: <https://gov.wales/coronavirus>

Business Wales have a central hub of information including the latest funding available: <https://businesswales.gov.wales/coronavirus-advice/>

Social Business Wales have useful information and guides for social business at all stages of development: <https://businesswales.gov.wales/socialbusinesswales/>

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