This is the Q&A from a Cashflow and business re-forecasting webinar on 20 April 2020. To watch our COVID-19 webinars again, or sign-up for new ones, visit: http://www.uk.coop/coronavirus/covid19-webinar

PLEASE NOTE: These webinars, and everything the speakers say during the webinars, are not intended to be, and should not be taken as legal advice. Where you require advice, we strongly recommend that you take independent legal advice where your full circumstances can be considered.

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1. What do you recommend for monitoring solvency, i.e. where the business is close to being unable to pay debts as they fall due? This may need to be a daily analysis to ensure that the business does not fall into illegal trading

The question does confuse two slightly different things Solvency and Liquidity. Solvency is about your Equity levels and Liquidity is about how much cash you have.

Firstly, it is probably best to explain what 'Wrongful Trading' is. Wrongful Trading is legal term for when an incorporated organisation is in negative equity and continues to trade without a plan for getting out of the negative equity.

Let's break that down – Firstly Negative Equity is when your net worth is a minus figure. When your liabilities (the things that you owe) are greater than your assets (the things that you own). A lot of business (especially start-ups or business that have just borrowed a lot of money) at some point of their life are in negative equity. At this point they usually have a business plan which shows how they will trade their way out of it. The problem is if the business plan isn't working. In effect if their equity is still decreasing. The key thing that you need to ask yourselves is are your creditors more likely to get their money back if you keep trading or if you stop now. If they aren't you must enter liquidation.

To find this information we need to look in a few different places. The balance sheet will give us a figure for our Net Worth or Equity. This will be our Assets less our Liabilities. We can also use our Gearing Ratios to examine this in more detail, our Debt to Asset Ratio is useful, if it is more than 1 we are in negative equity and the closer we get to one the less solvent we are. We can also use the Earnings before Tax and Interest to Interest Payable ratio to look at how much of income goes on paying interest. The lower this number the more difficult the situation.

In terms of liquidity and whether we have enough Cash to pay our bills (and this is a different thing from wrongful trading, if this is the situation you won't get into legal trouble and you won't have a problem with your limited liability as long as you are still solvent), then what you want to do is look at Net Current Assets. This is your Current Assets less your Current Liabilities. However, in this case instead of using the next financial year as the cut off period for what you define as current, I would use 30 days or 60 days or whatever the usual term on your trade debts are. Add your Cash, the stock you could liquidate within 30 days, and your trade debtors due within 30 days; then subtract from

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that the bills that are due within the next 30 days. If this is a negative figure then you are going to have liquidity problems and you need to consider how to increase your liquidity. Can you sell assets? Can you borrow? Can you get Equity or an Overdraft. None of these things are a problem as long as it is ony the cash flow that is the problem and not the solvency or that you are an unprofitable business.

2. If you're delaying Corporation Tax, presumably you need to add it in later, not just remove it...

Yes, there is currently no waiving of Corporation Tax, just the ability to delay it. However, the delay for VAT is until March 2021 and it is likely that any delays negotiated through the Time to Pay scheme will be similar. I suggest you have a short term immediate Cash Flow forecast and a longer-term forecast. The delayed Corporation Tax should appear in the longer-term forecast.

3. You also need to add in loan repayments surely?

The loans available through the Coronavirus Business Interruption Loan Scheme have an associated Business Interruption Payment where the government will pay the first 12 months of interest and any loan fees. AS most banks are offering a capital repayment holiday for the first 12 months there will be no immediate payments. Of course, you are right and in the long term forecast you will need to consider the loan repayments.

4. We run a bakery with a single tight point in cash flow every month, when payroll happens. Would you still recommend a weekly cash flow forecast or does monthly make more sense?

This is exactly why a weekly forecast is of most use. It is in order to see if you have enough Cash in that week that forecasting is the most use.

5. Worth stressing the option of community shares as an alternative to debt if you have an existing investor membership.

Please visit the Community Share's website on how to apply for community share offers for your organisation http://communityshares.org.uk. Successful applicants can also apply to boost the investment further via https://communitysharesbooster.org.uk

6. Are we closer to the Government applying its new company insolvency rules to co-operatives?

We are waiting to hear back from Her Majesty's Treasury on whether we have been successful or not. We should know by the end of the week.

7. Re wages for furloughed staff, I guess you could pay them only 80%, which will be 100% reimbursed by the government, if this is the only way to keep going?

This does really depend upon your contracts with your staff. You can’t just cut your staff's wages. However, the government is allowing you to only pay your staff the 80%, so if your contract allows you to, or if you can negotiate with your staff (because you are say a workers co-op) then yes that is a possibility.

7. Concerned about the amount of debt being taken on to survive this year. So the real problems may happen in 2021-2. The implications for managing long term debt whilst in a very uncertain market.

We need to be very clear that debt should only be taken on to deal with cash flow issues and not profitability issues. You also need to be very sure that you can afford the debt, both in terms of the impact of the interest on your P&L (This is best measured using the Earnings before Interest and Tax to Interest Payable Ratio), the monthly repayments on your cash flow (which we need to do a long-term cash flow forecast for) and your solvency (Debt to Asset ratio).

However, we also need to be aware that if we don't have enough cash to survive this year the long term effects on our business don't matter.

If we can't afford the debt in the long term we should look for other sources of finance. Extended Credit from your suppliers, equity from your existing member, or if your structure allows equity from the public using Community Shares, or long term loans from the public using either loan stock or bonds, which don't have an immediate effect on your cash flow and you can plan how best to pay them back in 5 or 10 years time.

8. What happens if there is a big difference in percentage change for sales as compared to expenses change?

If your sales go up by 10% and expenses go down to 10%, the effect is you make more profit. If you wish to get in touch outside of this workshop please do.

9. One co-op I'm working with has received an extension of credit from 30 to 60 or 90 days from suppliers which provides another opportunity.

Yes that is a great source of interest free money. If you have a good relationship with your suppliers (especially if you are good at paying your bills usually) then asking them for extended credit at this time makes sense.

10. Our Board is asking for net current assets to be shown below the cash flow forecast on a monthly basis. How would we do this?

Net Current Assets are a figure you get from the Balance Sheet. It is defined as Current Assets (Things you own that you can convert into cash within the next financial year) less Current Liabilities (Things you owe that fall due within the next financial year).

If your board want you to have a monthly Net Current Assets forecasted figure rather than the current figure you should:

1) Sum predicted Stock levels, Accounts Receivable (using the DSO*Monthly Sales/Days in the month formula), VAT owed to you by HMRC and Cash. This is your predicted Current Assets.

2) Sum predicted Accounts Payable (using the DBO*Monthly Bills/Days in the month), VAT due to HMRC and any loans due to be paid this year.

3) Subtract 2 from 1.

11. Will co-op provide any reliefs to COVID affected people?

Co-operatives UK provides organisational advice only for organisations working in the co-operative, mutuals and society sector. You can find more about our Covid-19 support on our website here: www.uk.coop/coronavirus. If your co-operative has specific business support needs, please contact membership@uk.coop

For individual support you may need to contact council, charitable and other institutions local to you.

12. The loan providers to our CBS have both agreed to interest-only payments for the next few months, as we have given our pub tenants a rent holiday so our income is nil. Worth asking.

Yes, contact all your loan providers and ask for holidays or interest payments where possible.