

Your Guide to Managing Cashflow as we come out of lockdown

Lockdown saw an interruption of the UK's economy and with it, business income squeezed or abruptly brought to a halt for many, many businesses.

These businesses looked to Government loans and other sources of funding in order to get through lockdown.

As we come out of lockdown, with the start of the repayment of these loans on the horizon and the effects of the pandemic likely to hit pockets for a considerable time to come, challenges continue for many business owners.

Clear Vision Accountancy is here to support you to successfully navigate this financial period.

Watch out for our video sharing a step-by-step guide for reviewing and reducing your business costs.

Your business costs and cash commitments will differ, as you will also be using your cash in other ways, including to make loan repayments, PAYE and tax payments and draw your personal income, to name a few. It's therefore vital to have visibility and clarity of your ongoing cashflow position.

This guide shares a step-by-step good practice system for you to follow to monitor and manage your cashflow. Use it to maintain a healthy cashflow position and avoid the stress which comes with experiencing cash issues in your business.

Step 1: Set up a 13-week cashflow forecast

The key to managing your cashflow is financial visibility and clarity.

The first step you should take is therefore to set up a 13-week forecast.

Why 13 weeks?

We recommend a 13-week time span as the accuracy of a forecast dilutes the further it extends into the future. 13 weeks provides enough visibility to be able to prepare for any cashflow issues before they occur and support longer term strategic decision making, while remaining short-term enough to be able to provide a high degree of accuracy.

Plot your expected cash inflows and outflows onto an Excel spreadsheet on a weekly basis over the period.

Start with your cash figure in the bank today and project forward on a weekly basis for 13 weeks.

We Can Help

Struggling with this? Contact us and we'll email you an Excel cashflow forecast template that is easy to use.

If it is difficult to predict your sales income over that period, you should produce multiple cashflow 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.

Once you have inputted all your costs and outgoings, you will have figures for both your opening cash balance and forecasted closing cash balance.

This will show you whether you are in danger of going into the red. If so, by how much and whether you are forecast to experience negative cashflow during the period i.e. you have more cash leaving your business than coming in.

Calculate Your Debtor and Creditor Days

You can take your cashflow analysis a step further to calculate and monitor how your debtor and creditor days are fluctuating.

Your debtor day calculation highlights how quickly your customers are paying you and your creditor day calculation how quickly you are paying your suppliers.

An increase in debtor days indicates that your customers are paying you more slowly, which will hit your cashflow unless your creditor payments are managed accordingly.

Discuss these calculations and any necessary actions with your accountant.

Step 2: Reduce cash outflows

If your forecast shows you will be facing cash tight spots, here are the key ways to reduce the amount of cash you pay out.

- **Conduct a regular review of your costs**

Watch out for our 3-step guide to cost efficiency to help you with this.

- **Utilise HMRC time to pay arrangements**

For any deferred VAT payments due between 20 March 2020 and 30 June 2020 which you still have outstanding, you can use the online VAT deferral new payment scheme to spread your payments.

The new scheme lets you pay your deferred VAT in equal monthly instalments, interest free. You can spread your payments across eight instalments if you join by 21 June.

You can join the scheme quickly and simply online without the need to call HMRC. To find out more information, including the things you need to do before joining, go to GOV.UK and search 'VAT deferred'.

NOTE: The online service will close on 21 June 2021 – if you want to join the scheme online, you must do so before this date.

If you have a Time to Pay arrangement already in place for your deferred VAT, you cannot use the online scheme. If you need to amend your Time to Pay arrangement, contact HMRC to do this.

- **Negotiate with your suppliers**

If you need to negotiate with your suppliers, we advise you to make contact to request short-term payment plans or revised credit terms.

Be wary of simply missing payments or cancelling direct debit arrangements, as this could adversely affect your relationship with them and/or the services/products your business provides. It could also run the risk of them discussing your actions with others and damaging your reputation.

- **Approach your finance providers**

Speak to your finance providers in relation to any loans, asset finance, leases and other debts to discuss a payment holiday.

If you have already done this during lockdown and were knocked back, do it again as lenders' attitudes can change.

- **Access other sources of finance**

You can review working capital facilities with your bank or there are other specialist lenders who lend against various forms of security such as debtors, property and so on. Be sure to discuss any financial application with your accountant to ensure it is an appropriate option for your business and will be reviewed favourably.

Be conscious of interest charges and ensure you include the repayments in your cashflow forecast as the money needs to be repaid!

- **Review your personal costs**

Strictly as a last resort for reducing the cash your business pays out, you can reflect on your personal costs to see whether you can live, on a temporary basis, on a reduced level of cash from your business and have less reliance on your business cash.

Step 3: Increase cash coming in

Review your business planning

Use the other areas on Clear Vision's [Business Recovery Action Planning Tool](#) to help increase your business efficiencies and drive its performance.

Government support

You may need to extend your cashflow forecast to explore a business case for a Government loan or grant:

Loans

The CBIL and BBL schemes being offered by the Government during lockdown are being replaced with a new Business Recovery Loan Scheme, enabling businesses of all sizes to borrow between £25,000 and £10million up until the end of 2021. There are also business grants available for businesses in struggling sectors.

Remember to assess the effect of taking on the loan in your cashflow forecast to ensure you will be able to service any debt you take on.

Grants

The [Restart Grant Scheme](#) supports businesses in the non-essential retail, hospitality, leisure, personal care and accommodation sectors with a one-off grant, to reopen safely as COVID-19 restrictions are lifted.

The Government's new [Help to Grow Scheme](#) was announced in the March 2021 Budget, which will provide funding for training for SMEs, as well as technology advice and discounted digital software.

Whilst this scheme is not expected to commence until Autumn 2021, you can [register your interest online now](#).

Self-employed? The [fourth grant for the self-employed is now available](#), equating to 80% of your average trading profits up to £7500, for the three months from February to April 2021.

At the time of writing, this grant is available to be claimed on or before 1 June 2021.

Tax Reliefs

The March 2021 Budget also included an announcement about [two new tax reliefs](#) in the shape of a 'super-deduction' to be given as a capital allowance for purchases of new equipment and the Special Rate (SR) Allowance.

Consider a claim for this tax relief with your accountant if you require new plant and machinery to aid the recovery of your business.

NOTE: there are conditions you should be aware of before you decide to claim this allowance.

You can also check if your company is eligible for [Research and Development Tax Relief](#).

Business interruption insurance

At the start of lockdown, most insurers declared that they were unable to cover business losses due to the pandemic. However, after pressure from the Government and the Financial Conduct Authority's appeal on this stance being upheld by the Supreme Court in January this year, insurers were obliged to remove many of the roadblocks put in place preventing policyholders from making claims in this instance.

Whether or not you have approached your insurer previously about making a claim and been rejected, it is worth approaching your insurer now if you are yet receive a payout.

Summary of Your Key Actions

1. Set up your 13-week cashflow forecast
2. Assess the impact of this review both for you personally and for your business
3. Assess the financial support available and its relevance to your business
4. Maintain your 13-week cashflow forecast to provide clarity on your cashflow as we come out of lockdown

We Can Help

The Clear Vision Accountancy team is available to help you as required with these actions.

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