**How can we manage cashflow in the face of COVID-19 lockdowns …..?**

**….**when we can't use our reserves, we can't know how long this situation will last, and the Government support schemes may not help or may just come back to bite us.

Those are not statements of fact, but real questions we've been hearing from clients and other friends in the social sector – some charities and some not. If we can't forecast cash reliably, how can we assess whether or not we are trading solvently. It we can't use our reserves and must leave them intact, how can we fund operations through this tough period ? We might watch operations collapsing whilst a pool of cash sits out of our reach. If we shy away from Government support, we might be burning a lifeline. So what are the answers ?

First of all, it is appropriate in certain circumstances to dip into reserves to support current cash needs. We should:

- Recalculate reserves if underlying assets have devalued, so that we know what we have to work with. With the investment markets some 30% down, and perhaps investments in subsidiary trading companies troubled, some revaluation may be necessary. Look at that revaluation over the period over which we might need to realise the value: don't blindly reflect short-term dips.
- Plan forward to use reserves (including both unrestricted, designated and restricted, in that order) selectively and to replace them from ongoing operational surpluses once things stabilise. Ideally restricted reserves should not be 'borrowed' for more than the current financial year, but longer with a plan for replacing them, which doesn't compromise delivery of the restricted purpose, is possible. We are seeing original grantors of restricted funds being prepared to vary the terms of the grant to help out in this challenging time, so it is worth the conversation.
- Accept that the leeway offered by the Government in wrongful trading, and the directors responsibility for it, is helpful but won't last forever. This provision from the Insolvency Act provides that an organisation should not be allowed to run up debt at a time when it could not reasonably have expected to meet it. We must get back to a stable position where creditors are not at risk as we come out of this temporary protection. It is also worth noting that the other provisions of the Insolvency Act (including: don't prefer some creditors over others; don't transfer assets to others at less than full value, which is the foundation of many charity mergers) are not lifted. This is definitely an area in which taking advice is a good idea.

Secondly we can in most cases forecast to an acceptable degree of reliability. We should:

- Rebase the budget for COVID factors, so re-set the previous budget, and the three year plan if prepared, to reflect a sensible base forecast that can be a reasonable target against which to compare what actually happens. If we don't, we'll constantly be saying "yes, but it isn't like that…" rather than assessing what is going right and wrong against a sensible baseline. Whilst we cannot know the future, we are in a situation where we know what is happening to income, ongoing contracts, and our management of resources (including staffing) to reflect those. We can take a sensible view as to how soon recovery may happen, and of how much it will recover: lockdown plus three to six months might be a start point.

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- Consider scenarios, and establish that our forward plan looks sensible in all of them. This involves a planning process of developing four 'worlds' each one of which may happen, which are mutually exclusive (we'll ultimately find ourselves in one or another, not more than one), and which leave no material gaps between them. The key unknowns are framed in these 'world' views, and the organisation's response can be seen in those contexts. The reflection of these might include, for example, as one of the 'worlds' how we might respond if the present lockdown is followed by a partial reopening, and then one or more periods of further lockdown.

Thirdly, the Government support does genuinely offer something valuable, and if that value fits we should take it. At the time of writing, in addition to the announcement of a £750m funding injection, the rules for which we are yet to see, these cover:

- VAT deferral for VAT payable up to June 2020 until March 2021, giving extra, interest-free, working capital;
- Time to Pay arrangements for deferring PAYE and NIC, initially for up to three months April to June, deferred to 22nd July, but likely to be extendable after, and carrying interest of only 2.75%;
- Furloughing support – covering 80% of the cost of wages and salaries for employees not able to be used in the operations for the time being – initially up to 31st May, but which may be extended;
- Additional borrowings with a Government guarantee of 80%, available from certain of the clearing banks.

The initial periods over which the first three apply (furloughing to 31st May, and the VAT and Time to Pay ones to June and potentially beyond that respectively) may be extended by the Government, so it is worth watching and planning around that possibility.

The first two provide additional working capital, but will have to be repaid, so that needs to be planned into the cashflows. VAT deferral has a set repayment date, but there may be some further negotiation to be had on that at a later date. The PAYE and NI deferral is for an initial period to 22nd July, but the experience of some clients who put their arrangements in place just before the details of the scheme came out (it's actually an adaptation of a regular HMRC scheme) suggest that longer term repayments are acceptable. Ideally these are repaid by March 2021, but this may not be a hard deadline, and we should negotiate if more time is genuinely needed.

Furloughing help is effectively a grant, and if it fits to your circumstances, it should be used. It will reduce the effect to which reserves are consumed by periods of low income and high staff costs, or avoid the necessary laying off of staff so reducing our ability to resume operations once lockdown and its aftermath are over. The additional borrowings need to be approached carefully. Whilst some relaxation of rules (such as wrongful trading) has been made, they are being offered under commercial terms, and the obligations to test whether secured borrowings are able to be serviced and repaid under s.124 Charites Act 2011 still apply, so Boards should be wary of taking on debt that looks unsustainable in one or more of the scenarios used in planning.

There really is more flexibility than first appears, but care and planning are needed, and these must be delivered at speed given the suddenness of the changes we are facing. It is more than one charity that has 'bravery' as one of its values, and rightly so. This is probably the time for displaying that value, with a solid underpinning of analysis and care, as "fortune favours the brave", and we have an even greater mission to fulfil in this new world.

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