

COVID-19:

Managing NFP cash pressures

March 2020



The COVID-19 outbreak has been declared a pandemic by the World Health Organization, causing huge impact on people's lives, families and communities.

As the international response continues to develop, we know that organisations are facing potentially significant challenges to which they need to respond rapidly.

We are working closely with organisations globally to help them to prepare and respond, by sharing our experience in working with companies, governments, regulators, NGOs and international organisations around the world to respond to some of the most high profile outbreaks (including Ebola, MERS, SARS and bird flu).

Managing your cash pressures

As the COVID-19 global response evolves, organisations are experiencing significant operational, financial and liquidity challenges.

In order to ensure these challenges can be addressed, a **critical concern** aired by our clients has been how they can **manage their cash pressures** to ride out the crisis.

Our Business Restructuring Services (BRS) practice provides support to clients in time sensitive and critical scenarios, consistent with the challenges that COVID-19 impacted businesses are now experiencing.

The following **five key steps** should be considered by NFP Boards and management teams as they seek to stabilise their cash position:



Our key considerations and experience at each of these stages have been detailed on the following pages.

Rapidly understand the financial position

1

Given the severity of the situation, an assessment of available and trapped cash should be made in a matter of weeks or even days.

Responding quickly is essential.

Cash

Assess potential short and medium term financial implications of COVID-19 focusing on liquidity and debt covenants.

Consider the following:

- Immediate 13 week short term cash flow forecast creation and/or review;
- Update business plans, budgets, forecasts;
- Identify potential worst-case scenarios;
- Perform sensitivity analysis, modelling worst-case scenarios and downsides; and
- The capability or limitations of existing reporting tools and systems to allow real time reporting across multiple locations.

Contingency plans

- Update your financial position and resource planning analysis to assume staff sickness;
- Assess where and what levels of tactical cost reduction could be undertaken, if required; and
- Develop operational contingency plans to minimise disruption to your business, inclusive of reviews of authorised personnel to manage bank and system processes and controls.

Stakeholder management

- Determine the strength of existing donor commitments
- Review donor commitment agreements and determine whether funds could be repurposed for operating costs or higher priority undertakings
- Review beneficiary commitments to understand opportunities to defer non-urgent or non-critical expenditure
- Reassess payment priorities and consider time to pay arrangements with suppliers; and
- Check insurance policies for business interruption clauses.

Plan for multiple scenarios

This is a highly disruptive event that will continue to pass through society and the economy in the coming months. Although it will be temporary, it may cause permanent changes to NFPs and the landscape in which they operate. Realistic planning and an ability to react quickly is essential.

Financial impact may occur in 4 ways. Response mechanisms differ depending on the situation.

		Financial impact	
		Cash & working capital	Funds generation
Permanent or temporary issue	Temporary	Strategic cash management, Working capital, Temporary financing	Tactical responses, Operational restructure, Cost control
	Permanent	Financing, Balance sheet restructure, Working capital	Business model, Operational restructure, Strategic options

Potential responses

- Plan for multiple scenarios, think broadly
- Develop implementation plans, use if/when needed
- Assess likelihood & impact, develop mitigation strategies
- Assess broader ecosystem - especially donors and critical partners
- Focus on known risks (eg: reductions in corporate support, competing causes)
- Understand and manage potential liquidity, debt & capital implications

All scenarios should be considered, especially:

- 1. Existing known issues**
- 2. High probability + medium/high impact**
- 3. Low probability + high impact**

Questions to ask

COVID-19: managing your cash pressure



Earnings, liquidity and working capital

Board Members

- What degree of confidence does the Board have in understanding how the impending financial and cashflow risks will impact the company?
- How accurate are your short to medium term cashflow forecasts?
- Are you comfortable with the quality of information provided to you by the management team?
- Are there inbound donations/ grants/ financing that have liquidity/ financial performance requirements? Can you meet or renegotiate these requirements?
- How frequently is the board meeting to consider response and contingency planning?
- Have you considered engaging a legal or financial advisor to help you navigate through this period of uncertainty?

Senior Management

- What are the potential impacts on cash generation, cash reserves and working capital? Will these impacts be temporary or permanent, or a combination of both?
- Are you able to forecast contingency scenarios in order to assess the potential earnings impact and liquidity requirements?
- Do you have a strategic cash management function? How accurate is your current cash forecasting? What plans do you need to develop and be ready to implement to strategically and tactically manage liquidity position and associated stakeholders?
- Even with active intervention, do you still have sufficient funds available to meet your potential cash requirements?
- What is the status of bank/debt facilities? Will you remain compliant with your banking covenants? Are you at risk of having unused facilities withdrawn?
- Are you providing the board members sufficient information on a timely basis for them to be comfortable that they are making the best long term decisions for the NFP?

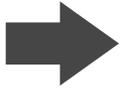
Take action to protect the position

2

Once clarity on the cash position has been obtained, the directors and management teams should take immediate action to ensure they can (at a minimum) maintain this position, alongside identifying opportunities to access new money, if required.



Focus on **cash available for investment/ delivery**, not gross revenue. A significant proportion of cash generation initiatives at NFPs can be loss making once all costs (including staff time costs) are allocated.



Review revenue generation initiatives. **Cease initiatives that are not expected to generate cash** and increase resources for initiatives that are.



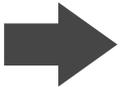
Consider alternative cash generation initiatives, particularly those that don't involve face to face contact. See also section 4 below.



Implement rapid cost reduction plans, including headcount reductions.



Plan to retain or increase cash reserves, as cash reserves may be required to fund unforeseen challenges. Prioritise investment/ delivery decisions to **maximise impact in your communities**



Renegotiate your rent. Do the same with your finance repayments.

Understand the changing operating environment

3

The economic impact of COVID-19 on NFPs is already being felt.

The Government has released two economic packages in response to the economic challenges arising from COVID-19.

Understanding how each of these effects your business needs to be factored into your forecasts.

Potential economic impacts

Reduced revenue generation in short to medium term from:

- Cancellation or rescheduling of revenue generating events;
- Restrictions on face-to-face interactions historically used to engage potential donors;
- Community focus moved away from existing causes;
- Corporate cost reduction plans; and
- Employment and savings concerns for individuals (may impact long term, but may increase funds generation from some individuals).

Government support

- NFPs with turnover of less than \$50m will receive a tax-free cash payment of between \$20,000 and \$100,000 (equal to amount of PAYG) to be delivered as an automatic credit on activity statements;
- The ATO will tailor solutions for financially distressed businesses, including temporary reduction of payments or deferrals, or withholding enforcement actions including Director Penalty Notices and wind-ups.
- Deferral of various federal and state Government charges

Insolvency changes

- Temporary relief for directors from any personal liability for trading while insolvent. Normal Safe Harbour rules will apply immediately following;
- A temporary increase to the threshold (from \$2,000 to \$20,000) at which creditors can issue a statutory demand on a company; and
- A temporary increase to the time companies have to respond to statutory demands they receive (from 21 days to 6 months).

Manage internal and external stakeholders

4

Organisations will need to quickly understand who their key stakeholders are (internally and externally). Management of stakeholders can often be challenging in a stressed scenario, particularly where interests are conflicting and there are significant demands for real time information

Communication

Develop a **clear communication plan** to ensure consistent messaging across all channels.

While being consistent, the messages should be **tailored to each stakeholder** group (or even key stakeholder). Communication should not just inform stakeholders of what you are doing, but engage them to **support you in navigating the COVID-19 crisis**.

Consult with internal risk, marketing and other relevant specialist teams, as appropriate.

Stakeholders

Identify all **key stakeholders**; **engage early** and **proactively manage**. Understand their **current position**; how they may act and any associated issues which may arise
Assess the impact of these issues on your business and work with the stakeholders to minimise or mitigate the impact.

Typical stakeholders include:

- Internal – staff, volunteers, management, board
- Purpose – beneficiaries, donors, members, community, government, other NFPs
- Operational – landlords, suppliers, insurers, regulators
- Financial – banks, auditors, credit card companies

Continuously reassess your approach

5

We are in uncharted territory, and critical information on the characteristics of COVID-19 and the potential impacts to businesses and global economies are difficult to assess and rapidly changing as the situation continues to evolve.

Organisations must respond with agility as they look to manage the here and now, and the coming weeks and months.

An integrated delivery team tailored to the situation

Business challenge	<p>Complex → Underperforming → Distressed → Crisis</p>						Insolvent			
How we can support	<p>Operational restructuring</p>		<p>Financial restructuring</p>				<p>Insolvency</p>			
Our typical services	<p><i>Focus on the business/problem</i></p> <p>We diagnose the problem and help you understand its drivers. We deliver hands-on improvements and operational changes that will address this problem and set your business up for success</p>		<p><i>Focus on the balance sheet</i></p> <p>We work across both lender and company initiated financial restructuring situations, delivering deep technical solutions and commercial outcomes.</p> <p>This can range from advisory and restructuring services, through to boardroom management, safe harbour advice, crisis response, and solvent business exits.</p>				<p><i>Recover and protect value</i></p> <p>We help companies and creditors save businesses, preserve jobs, and recover and protect value, through targeted solutions and tailored technical expertise that helps you manage stakeholders and key risks.</p>			
An integrated delivery team	<p><i>Innovative solutions across a multidisciplinary team</i></p>									
	Consulting Strategy&	Tax	Legal	Assurance	CFO Advisory	M&A and Valuations	Transactions Services	Data & Analytics	Forensics	Cyber

To find out how we at PwC are responding to the COVID-19 outbreak, please visit

<https://www.pwc.com.au/important-problems/covid-19.html>

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