Medicines Australia HCO Webcast Series: Navigating COVID-19 and beyond

Financial management and cashflow forecasting

To address the significant operational, financial and liquidity challenges expected during recovery from COVID-19, we recommend NFPs use their time now to focus on the following key areas:

1 Cash is king

Continue to focus on optimising your cash position. Maintain a rolling 3-6 month cash flow forecast and don't forget any accruing deferred liabilities.

- A detailed cashflow forecast, that is regularly reviewed and updated, is critical. The sooner you identify a potential cashflow issue, the more options you will have to address it. The uncertainty created by COVID-19 means that assumptions need to be constantly reassessed.
- Be conservative if you are not confident with your forecast. It is better to conserve liquidity now and have available cash for investment later when you have more clarity around the future outlook.
- Plan to retain or increase cash reserves, as cash reserves may be required to fund unforeseen challenges.
- Implement rapid cost reduction plans early, including headcount reductions and whether or not to outsource back office functions

2 Pick your cash generation winners

Review cash generation initiatives and identify those that will provide the best net cash return. Focus resource investment (including staff time) on these initiatives.

- Profit and loss statements are generally not very informative for NFPs. Separate the cash generation and delivery functions of your business in financial reporting.
- Report on cash generation initiatives at the net profit (not gross profit) level. A significant number of cash generation initiatives at NFPs can be loss-making once all costs (including staff time costs) are allocated.
- Cease initiatives that are not expected to generate cash and increase resources for initiatives that are.
- Investment in at least basic accounting support should assist in identifying underperforming or under resourced initiatives and therefore be at least self-funding.

3 Prioritise delivery

Not everything that you planned to achieve in 2020 will now be possible. Review and rank delivery for purpose options, so that you can deliver the best impact for whatever your new capabilities are.

- Look to maximise impact with the reduced funds available to you by proactively ranking delivery options. You can always increase delivery of lessor ranked options later, if additional funds become certain.
- Be conservative in delivery. Making hard decisions for the next 3 to 6 months will allow you to do the right thing by your communities and causes for the next 3 to 6 decades.
- The more that you reduce costs and cease initiatives that are cash depletive, the more funds that will be available for delivery. Review the two key areas above and see if more can be done.

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4 Have a Plan B (and C)

Prepare back up plans and be ready to swiftly enact them if foreseeable issues arise.

- Planning responses to foreseeable issues means that effective solutions to these issues can be implemented immediately when the issues occur, minimising their impact.
- It also allows you extra time to deal with the unforeseeable issues that will inevitably arise.
- There are numerous foreseeable issues that can be planned for, including:
  - Jobkeeper payments ending earlier than late September (or being extended);
  - A second COVID-19 spike, resulting in a second lockdown period;
  - Donor contributions being 30% under revised forecasts.

5 Protect yourself from personal liability

The “Normal” Safe Harbour protection rules return in late September (unless interim rules are extended). Make sure you plan early to satisfy the Safe Harbour requirements.

- Directors of organisations can be personally liable for all debts incurred after a business is considered insolvent(i.e. unable to pay all of its debts as and when they fall due). D&O insurance policies typically exclude cover for insolvent trading.
- Since October 2017, Safe Harbour protection from this personal liability has been available to Directors under certain circumstances.
- This Safe Harbour protection has been extended to all Directors during COVID-19, for debts incurred “in the ordinary course”.
- Unless extended (or brought forward), the extended Safe Harbour protection will end on 25 September. Given the increased risks of trading in the pre and post COVID-19 environment, we recommend that directors plan now to be able to comply with “normal” Safe Harbour requirements when extended protection ends.
- There has been no change to any other duties of directors.

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