

# COVID-19 short term cash flow forecasting

On the back of lockdown due to COVID-19 crises, lots of businesses in recent weeks have found a need to prepare Short Term Cash Flow (STCF) forecasts, for their own benefit or to share with their funders. We are providing you a 'Short term cash flow forecast 2020' in excel, which can be used to come up with STCF forecasts.

**Here are a few practical prompts and guidance for your assistance.**



## ① How far forward to forecast?

That depends on what you need to see or share, but the further out you go, the less useful or reliable it will be. Generally accepted good practice is getting to a 13 week forecast, as this will always cross a full quarter of dates. Thus, so major payments like rent, VAT and income tax get included.

## ② Will you forecast daily or weekly?

By definition, monthly results won't cut it here. Daily forecasting can mean a ton of extra work that may not create much more insight, so weekly projections are likely your best option. Every daily model we've seen over the years has tended to take more than a day to update or sensitise.

## ③ Be ready to change format

It's possible most cash flow statements you've prepared before are in a format that starts with EBITDA (Earnings Before Interest, Tax, Depreciation & Amortisation) or another profit number, and then makes adjustments. That approach suits longer term forecasts and the use by deal-makers; however, a STCF will want to adopt a 'Receipts & Payments' format, which may need some different maths.

## ④ Make it easy to 'roll forward'

Chances are you'll be updating it next week. Our proposed spreadsheet structure can easily move on from week to week. If you are doing 13 weeks, will you use the same 13 columns again in the next update and relabel them? Or will you move a column to the right, leaving the labels (and numbers) where they were? We favour the latter approach.

## 5 Modelling or typing?

STCF models are often more of a template for gathering and reporting input cash flows rather than calculations of cash flow numbers from a set of input drivers. For example, your credit controller/ debtors manager probably knows what cash receipts to expect from customers in the next month or two. So it'll be more accurate to type these in instead of trying to estimate them using days ratios or other spreadsheet maths.

## 6 You may need to change your financial statement forecasting methodology

Most businesses do a annual Profit and Loss forecast and then map it to Cash Flow and Balance Sheet second. For STCF, it's likely that you'll need to work from your recent Balance Sheet first. For example, most of the cash payments you'll be making over the next 3 months are likely to be in your trade creditors now – so it's easier to read down the purchase ledger and see what gets paid when, rather than look at a budget of costs and guess at the mapping.

## 7 Weekly forecasts need trends and variations you ignore in a monthly model

Purchase ledger payments and sales ledger receipts may smooth evenly across the weeks of a month (or may be back-ended), but lumps like salaries and rent need putting into the right week.

## 8 Weekends rarely match month ends

Thus it will be increasingly hard to reconcile your weekly forecast to the same period of your monthly forecast. An overall sense-check for directional consistency is needed, but presumably your STCF will be more detailed and more accurate than a 'rules based' forecast from your annual/ monthly planning model. Trying to reconcile the two will prove fruitless.

Pulling a short term cash flow forecast together is a new challenge needing different modelling and commercial expertise to make it useful and sustainable. At Grant Thornton we are helping businesses by providing both transactional advisory skills and restructuring expertise needed to manage cash and gain insight into the near future.

### Contact a specialist

If you would like a conversation with one of our local specialists to explore how to navigate the impact of COVID-19 on your business, and how you can put in place measures to protect your business at a time of crisis please contact any of the following;



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**Our short term cash flow forecasting excel tool is shared to help private sector businesses to cope during this challenging time, and is made available for use at no cost. Please get in touch with our team to access the tool.**