FOREST INDUSTRY CONTRACTORS ASSOCIATION

Tips to Survive the Current Cashflow Crunch and Crew Disruption

Well 2020 is proving to be a challenging year despite getting through several humps in 2019 and the information and actions are very fluid, changing on a daily basis which also making it difficult to predict with any certianity around the short term forecast. Those involved in domestic supply currently appear largely unaffected, but anyone involved in export will have had bad news, to varying degrees.

In our experience the critical issue is to preserve working capital to assist start up when conditions inevitably pick up. Every contractor's position at the start of the downturn will be different. And as to how long the downturn lasts currently no clear picture. **Hope for the best, plan for the worst scenario applies**.

The key to all these steps is communication. Hiding from the problems, real as they may be, won't make them go away, just worsen the consequences. So through the support of Blackburne Group, they have assisted the industry by providing these points to consider at this time but in the first instance:

- Talk to your financiers
- Talk to your workers
- Talk to IRD
- Talk to Creditors
- Defer all non-essentials

CASHFLOW

Cashflow management is KEY during these tough times.

- Know the costs of your operation and what costs you can readily minimise during times of reduced income (e.g. ‘parking up’ equipment that is surplus to requirement, so as to reduce running costs).
- Manage cashflow forward and stay ahead of the game. Update projections to record future cashflows and commitments and identify where the shortfalls are.
- Establish lines of credit in advance to support you during those periods where it is required.
- Regularly monitor your actual cashflow to your projections. Keep your finger on the pulse so that you can proactively diagnose small problems before they escalate into larger ones.
- Keep communication flowing with your suppliers, banks and financiers. They are generally more receptive to requests for assistance from those who they know will communicate regularly with them.

Give consideration to costs/commitments that you may be able to reduce in the short-term:

- ACC:
  - Remember that ACC do have a payment plan whereby premiums can be repaid over 3 ,6 or 10months. 3- and 6-month terms have no admin fee. Ten months incurs a 5.4% flat fee. Although desirable to repay over 3 or 6 months, to preserve cashflow it might be better to move payments over the ten months. In some cases, payrolls will decrease so the provisional portion of your levy could be reduced. In our experience ACC have entered into short term arrangements to help through cashflow difficulty. ACC will help in the recalculation of provisional levy and resetting your repayment in the event of a recalculation. Key is to contact them and talk to them before your direct debit bounces. At this time of year most ACC plans have completed or nearly completed but it is worth trying to reduce cash flow where you can.

- Repairs and Maintenance:
  - Where possible, delay any repairs and maintenance programmes that you may have had planned.

- Talk with your supplier/s to request the spread of payment for any current invoices over forthcoming months.

- Insurance options:
  - Reduced premiums for 'parked up' gear (ideally 'parked up' in a secure yard)
  - Reduced premiums for any "extras" that that might be included in premiums (e.g. cover for increased costs of working /replacement gear etc, n/a if equipment parked up)
  - Level of liability insurance covers (i.e. if not working/employing then either don't need at all or take out level of cover appropriate to current circumstance).

- Loan Repayments:
  - Apply for Interest-only repayments in the short-term
  - Give consideration to extending finance terms
  - Would the amalgamation of debt benefit your cashflow position moving forward?
  - Do you have any equipment/vehicles that is surplus to requirement that could be sold to generate cashflow? (There is not much of a market for logging plant at the moment but you may have non industry specific plant).

- Tax Planning and IRD Commitments:
  - Tax planning to align tax payments to projected profit level.
  - Co-ordinate with IRD to set up a payment plan/s for the repayment of tax/es across several months (as opposed to one lump sum). While interest will be charged on such payment schemes (at a current rate of 8.35%), you will significantly reduce any late payment penalty charges.
  - An alternative to setting up an IRD payment plan would be to undertake Tax Pooling whereby you effectively buy another taxpayer's credits which are available at the right time so that you avoid penalties. There is some interest charged, but this is less than IRD rates, so potentially significant benefits.

- Drawings:
  - Are there personal expenses that you can reduce, thereby reducing your level of drawings.

CREW CONTINUATION

- Reductions in rates or reduction in production are the obvious areas that are affected when tough times hit the industry and we work with our clients to evaluate the impact and if sustainable.
- While it is not ideal to have any reductions in either the rate or target, during times of downturn in the industry they should be considered to enable the crew to continue and (hopefully) come out the other side when things ramp up.
- A reduction in BOTH rate and target are what we would consider worst-case scenario, as any such reductions are not sustainable long term. However, may not be an option to be completely discounted and need to evaluate the economics of whether or not such a scenario could be sustainable short-term.
- The economics are different for each business and are dependent on whether or not there are any cash reserves to work with and/or opportunity/ies to generate cashflow quickly.
- The next step is to then consider the trade-offs between using cash reserves to continue operations and retain crew OR 'cash up' sooner rather than later and retain those reserves.

Sorry there is no magic bullets out there, but anyone as a member of FICA has our extreme sympathy and our support to lessen the load. We are working with government and Te Uru Rakau on these matters daily and will continue to bring you updates as soon as we know anything.

Blackburne Group are here to support you and provide assistance if and where required in respect of any of the above. Please do not hesitate to contact them on **0508 376 0092.**

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