



## CRISIS DISCLOSURE

### Accessing financial information for negotiations during the pandemic

With the COVID-19 outbreak we are entering a period of uncertainty. However, some employers will be in a better financial position than others to weather it. It is therefore important to have an accurate assessment of an employer's ability to pay, to enable us to negotiate over what happens next. To this end we have prepared a template letter that can be sent to your employer requesting relevant financial information (see the last item in this briefing).

In normal circumstances we might use the most recently registered company accounts to assess this ability to pay. However, in the exceptional circumstances of the COVID-19 pandemic, we may no longer be able to rely upon these accounts to give us a true picture. There are also a number of exceptional measures in place that could have a significant impact on your employer's ability to pay, notably the new government subsidies to employers directly linked to the pandemic.

For that reason, we are asking employers to supply us with the following financial information. This is a brief summary of what that information is and why it is important:

- **Turnover/Revenue:** 'The total amount of sales created by a company before any costs are deducted'. This is normally worked out quarterly (i.e. every three months) and will give a basic idea of how badly affected company XYZ have been by COVID-19. By comparing this year's quarterly results with the same quarter last year, this will provide an accurate picture of how far down (or up) the company is relative to last year.
- **Gross profit:** 'the profit a company makes after deducting the costs of sales', where cost of sales is 'the direct costs of producing the goods/services sold by a company (i.e. materials and direct labour)'. It shows the performance of a company's sales and production and how efficient its processes are. If gross profit is much lower (or higher) this quarter than the same quarter last year, that might indicate disruptions in company XYZs supply chain or alternatively increased demand. Again, that will provide valuable information for negotiations.
- **Operating profit:** 'profit before interest and tax' – it reflects the residual income that remains after accounting for all the remaining operating costs of doing business (gross profit minus admin expenses, but before interest and tax). This



shows the broad operating performance of the company. It is the most commonly used measure of profit. Like gross profit, it is an indicator of the current financial position of the employer and its ability to pay.

■ **Net income:** ‘Profit after interest and tax have been subtracted’ – this is effectively the profit available to shareholders, after taking off the costs paid to government (tax) and banks/bondholders (interest). If there is a big difference between this quarter’s net income and the equivalent quarter’s net income last year, then that might mean its borrowing costs are much higher. That might be a sign of stress. But if net income is strong, then it means they might even be able to afford a pay rise and almost certainly be able to avoid cuts to jobs or terms and conditions.

■ **Net cash inflow from operations:** This shows the underlying cash generating ability of the company. There is a difference between cash and profit. Companies can book a profit when they enter into a contract, but they only book ‘cash’ when there is a physical payment. Cash is important because some companies can get into difficulties with cashflow (i.e. if customers don’t pay their bills on time). But if cashflows from operations are fine, then this is a strong indicator that the company is in a decent financial position.

■ **Total cash and cash equivalents:** this shows how much cash the company holds at any one time. In times of uncertainty like this, having lots of cash is useful if banks are getting picky about who they lend to or customers are themselves stressed and may not pay their bills. Having a lot of cash means they might be able to afford to maintain pay levels or even rises, even if they dip into operating losses.

■ **Retained earnings:** The amount of net income left over for the business after it has paid out dividends to its shareholders. It is also a buffer against write offs on assets. If retained earnings have declined significantly that may be a sign the company is distressed. Sometimes retained earnings are reduced if a company is over-paying dividends. Questions then could be asked about why workers need pay cuts or job losses whilst dividends are maintained.

■ **Numbers and composition of the workforce:** this provides basic background on how many people are employed by the organisation and the make-up of that employment (full-time/part-time plus breakdown by gender etc.).

■ **Wages and salaries:** this shows how much workers are being paid. Examining wages and salaries relative to revenues shows whether workers are taking a rising or falling share of the fruits of their labour. Measuring wages and salaries relative to dividends would also show whether shareholders or workers are doing better out of the firm over time. If management has expressed the intention to reduce wages or jobs, questions should be asked about cutting dividends first.



- **Employee pension fund surplus/deficit:** pension fund deficits will be a key thing to look into in this period of uncertainty. Even if operations look good, firm performance overall can be seriously damaged if movements in the stock market push workers' pensions into deficit. This may be one area that managers seek to restructure, or may be an excuse managers use to reduce wages or block pay claims. But stock markets can rebound, and it is not yet clear that the current stock market lows will continue if there is a jump after the lockdown ends.
- **Directors' emoluments:** i.e. how much the board are being paid. If they are paying themselves well despite the disruption, then workers should not be expected to take cuts to jobs or terms and conditions.
- **The number of workers covered by the Job Protection Scheme:** even if your company has been seriously affected by the COVID-19 disruption, it may be that they have received considerable amounts of money from government to keep them going. If there are lots of workers covered by the Job Protection Scheme, then there may be some money there.
- The amount of **government subsidy** applied for and how much has been received: as per the Job Protection Scheme – if the company has received a lot of support money from government, then they may still be able to retain jobs and refrain from cuts to terms and conditions.
- **The cost of additional health and safety measures relating to COVID-19:** knowing the amount spent on PPE, enhanced workplace cleaning measures, to stagger shifts etc. will be important in assessing true costs of the crisis and prioritisation of spending.
- **Expected taxation, liabilities and interest payments:** this may provide some indication of 'ability to pay'. There may be tax relief as part of the bailout plans, or reduced interest payments/payment holidays. This may provide room for negotiations.
- **Expected impairments on assets, such as goodwill:** if your company has bought out other companies, it might have a lot of goodwill on its balance sheet. Goodwill is the difference between what a company pays for another company and the book value of its assets. If the changing environment affects the line of business of that new subsidiary, it may have to writedown some or all of that goodwill. That may pose a risk to the company's 'retained earnings' (see above) or 'net assets'. That may affect their 'ability to pay'.
- **Expected net asset position:** like 'retained earnings', 'net assets' are an indicator of the buffer/safety cushion of a firm – i.e. how secure the company is. If the net asset position is solid, then it means they may have 'an ability to pay'.



- **Related party transactions:** sometimes, in large multinational firms, firms will put a lot of debt onto British subsidiaries so that the interest payments lower profits. If 'ability to pay' negotiations are based on the profitability of the British part of the business, then this may prevent fair bargaining. Understanding these transactions is an important part of the 'ability to pay' assessment.
- **Total amounts owed by/to related parties:** as per 'related party transactions'.
- **Current Ratio (current assets/current liabilities):** this is a measurement of potential short-term financing problems. It basically asks a firm 'do you have more short-term assets than short-term debts?'. A figure over '1' means the company has good short-term liquidity and is less vulnerable to cashflow problems. A good ratio means the company may be in a position to negotiate on an 'ability to pay' basis.
- **Gearing Ratio (long term liabilities/shareholder funds):** This is a measure of 'leverage' i.e. how much debt the company carries relative to its shareholder equity; it measures the financial risk of a company. Companies with lots of debt may need to prepare for increased interest rates, which might affect their 'ability to pay'.
- **Interest Cover (operating profit before interest and tax/interest paid):** this is both a debt ratio and a stability ratio. It shows how easily a company can pay interest on its outstanding debt from its profits. Companies may need to prepare for both reduced profits and increased interest if they become perceived to be riskier to lend to. This may affect their 'ability to pay'.
- Any **credit rating downgrades** related to the company: all company debt is rated for risk. A credit rating downgrade means the company is at greater risk at defaulting on its debt. That normally affects the costs of a company's borrowing, pushing up the annual interest it pays. A credit rating downgrade may affect a company's 'ability to pay'.
- Any **relevant risk committee items** since the last accounts: risk committees are independent committees who have responsibility for the oversight of the risk management policies of the firm. If this is disclosed, it may reveal COVID-19 related factors affecting 'ability to pay'.
- Any **going concern risks** since the last accounts: a 'going concern' is a business that is assumed will meet its debt and other financial obligations when they fall due. All financial reporting takes place on the basis that a company is a 'going concern'. If there is a risk that a company will fail to make those payments, it is a going concern risk. Unfortunately some companies will be in that position after COVID-19.



## **COVID 19 IMPACT TEMPLATE LETTER**

### **Disclosure of Information for Collective Bargaining Purposes**

Dear **INSERT NAME**

In accordance with Sections 181 and 182 of The Trade Union and Labour Relations (Consolidation) Act 1992 **EMPLOYER NAME** is obliged to provide the Union with information needed for collective bargaining purposes.

In the exceptional circumstances of the COVID-19 pandemic we need additional up to date information on **EMPLOYER NAME**'s finances. We are therefore requesting that **EMPLOYER NAME** provides up to date information in writing on the following aspects of the business:

- Turnover /Revenue
- Gross profit
- Operating profit
- Net income
- Net cash inflow from operations
- Total cash and cash equivalents
- Retained earnings
- Numbers and composition of the workforce
- Wages and salaries
- Employee pension fund surplus/deficit
- Directors' emoluments
- The number of workers covered by the Job Protection Scheme
- The amount of government subsidy applied for and how much has been received
- The cost of additional health and safety measures relating to COVID-19
- Expected taxation, liabilities and interest payments
- Expected impairments on assets, such as goodwill
- Expected net asset position
- Related party transactions

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- Gearing Ratio (long term liabilities/shareholder funds)
- Interest Cover (operating profit before interest and tax/interest paid)
- Any credit rating downgrades related to the company
- Any relevant risk committee items since the last accounts
- Any going concern risks since the last accounts

Providing an accurate assessment of an employer's ability to pay is crucial for the pursuance of collective bargaining by trade unions.

In normal circumstances we might use the most recently registered company accounts to assess this ability to pay. However, in the exceptional circumstances of the COVID-19 pandemic, we can no longer rely upon these accounts to give us a true picture. There are also a number of exceptional measures in place that could have a significant impact on **EMPLOYER NAME**'s ability to pay, notably the new government subsidies to employers directly linked to the pandemic.

It is therefore clear that the provision of this information would be in accordance with good industrial relations and that we would be impeded to a material extent without it.

Yours sincerely,