



COVID-19 – Going concern, risk and viability

Reporting in times of uncertainty – June 2020



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The Lab would like to thank all the investors and companies who took part in discussions with the Lab team.

Examples used

Our report highlights examples of current reporting practice that were identified by the Financial Reporting Lab (Lab) team and investors.

Not all examples are relevant for all companies and all circumstances, but each provides an example of a company that demonstrates an approach to useful disclosures. Highlighting aspects of reporting by a particular company should not be considered an evaluation of that company's reporting as a whole. Nor does it provide any assurances of the viability or going concern of that company, and should therefore not be relied upon as such.

Investors have contributed to this project at a conceptual level. The examples used are selected by the Lab to illustrate the principles, and should not be taken as confirmation of acceptance of the company's reporting more generally.

If you have any feedback, or would like to get in touch with the Lab, please email us at:

financialreportinglab@frc.org.uk

Quick Read

The COVID-19 crisis and responses to it are creating unprecedented global uncertainty. Disclosure can be a tool for companies to communicate how they are navigating through such uncertainty.

Against this backdrop of uncertainty, detailed and useful disclosure may be a challenge for boards. Companies may be concerned around disclosure of the full range of possible outcomes or the market reaction to them. However, investors understand and expect such disclosure in an environment that is very uncertain. In such circumstances, investors seek clarity on the key factors and events that impact the level of uncertainty and the prospects for companies, over the short, medium and longer term.

Many parts of the annual report may be impacted by the current situation, but in this report we highlight the impact on three key areas of disclosure:

- Going concern
- Risk reporting
- Viability statement

This report considers each of these areas and highlights some of the key considerations for companies. The report also provides examples of current disclosure practices.

Going concern

Locating and obtaining short-term cash resources is often about building resilience and flexibility but, for some, it is ultimately about survival. In such circumstances, reporting on going concern and uncertainties becomes more important. The disruption to business models in the short-term might mean that the going concern assessment is more complex task. However, going concern is not a simple binary or pass/fail concept. A company can be a going concern even when one or more material uncertainties exist. In such circumstances what becomes important is the disclosure about the uncertainties and management's consideration of these.

Risk reporting

Reporting by companies on principal risks provides investors with key information about the resilience and adaptability of a company's business model and strategy to internal and external shocks.

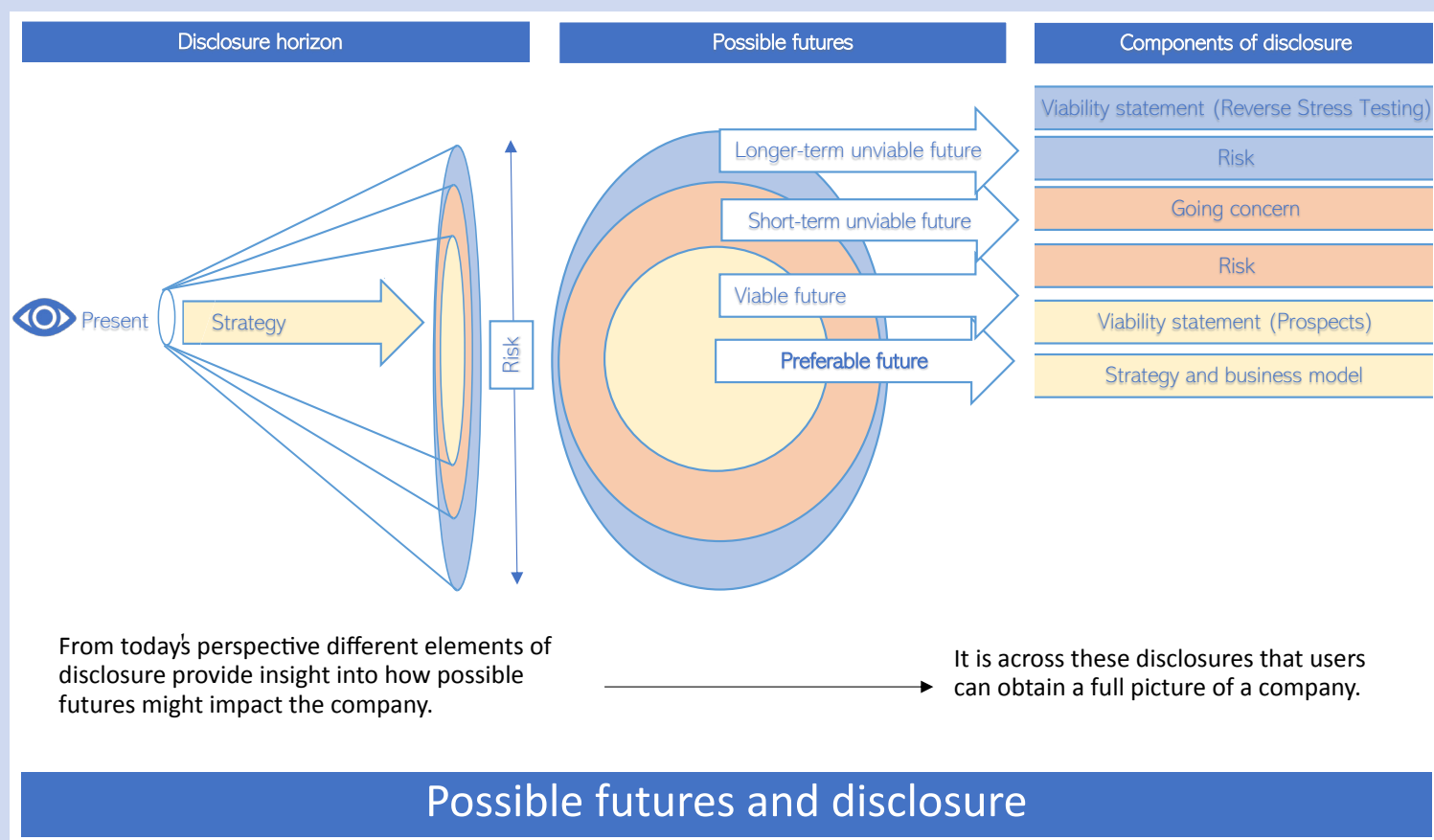
COVID-19 has created risks for many companies and caused a reconsideration of risk profile and appetite. Investors therefore want to understand how those risks have changed and how they specifically affected companies, and how management have responded.

Viability statement

The viability statement was introduced following the 2008 financial crisis to provide investors with a better view on the longer term prospects and viability of a company's future. The current crisis is a test of the value of viability statements. A viability statement with realistic scenarios and clear assumptions provides boards an opportunity to communicate their longer-term prospects, even when the short-term outcome is less certain.

Combining useful, detailed disclosure across going concern, risk and viability, provides investors and other users with insight into the business and the impact of COVID-19 in both the short and longer term.

FIGURE 1 – Possible futures and disclosure



Reporting in times of uncertainty

This report forms part of a wider suite of reports from the Lab. Our reporting in times of uncertainty reports provide insight into the challenges of reporting and disclosure during COVID-19. The latest report builds on the Lab's recent COVID-19 infographic and considers the five questions that investors want answers to right now, and includes examples of disclosure which attempt to meet these needs. The report is available on the FRC website [here](#).

Financial Reporting
LAB

COVID-19 – Resources, action, the future

Reporting in times of uncertainty – June 2020

FRC

Financial Reporting Council

Reporting during times of uncertainty

Five current questions investors seek information on...

Resources

Action

The future

1 How much cash does the company have? How much cash does the company have? How much cash does the company have?	2 What cash and liquidity could the company obtain in the short-term? What cash and liquidity could the company obtain in the short-term? What cash and liquidity could the company obtain in the short-term?	3 What can the company do to manage expenditure in the short-term? What can the company do to manage expenditure in the short-term? What can the company do to manage expenditure in the short-term?	4 What other actions can the company take to ensure its viability? What other actions can the company take to ensure its viability? What other actions can the company take to ensure its viability?	5 How is the company protecting its key assets and value drivers? How is the company protecting its key assets and value drivers? How is the company protecting its key assets and value drivers?
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More guidance is available on the FRC website - [https://www.frc.org.uk/about-the-frc/covid-19](#)

Section 1

Going concern

Going concern assessments

Locating and obtaining short-term cash resources is often about building resilience and flexibility but, due to COVID-19 based disruption, for some, it is ultimately about survival. In these circumstances, reporting on going concern and uncertainties becomes more important.

A simple decision?

For many boards the going concern decision and related disclosure has often needed little attention – in good times most companies will be expected to continue. However, COVID-19 and government-imposed lockdowns and restrictions have changed the dynamic. When business models can't operate for prolonged periods the continuation of almost all companies comes into question (to some degree). Boards are naturally apprehensive about providing overly detailed going concern and uncertainty disclosures as they are concerned that it might trigger action from investors and others.

However, investor expectations are robust – they understand and expect that for many companies COVID-19 creates issues. Quality disclosure therefore helps them focus on those companies which need the most attention and support.

An uncertain decision

A company can be a going concern even when there are material uncertainties that cast significant doubt over that going concern status. Investors recognise that the level of uncertainty is unprecedented and, to a large extent, outside the company's control. They, therefore, expect that companies will report many areas of uncertainty and estimation.

The relevant regulation notes that going concern disclosures are not a binary pass/fail decision:

"When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties."

(IAS1)

[Appendix A](#) provides more detail about the regulation around going concern.

Disclosure around going concern helps to provide context in uncertain times. Helpful disclosures:

- Clarify the going concern position and detail the factors that support that decision, such as the cash position, support from others (including government schemes), current business activity etc.
- Provide details of the actions (both current and potential future) and their status.
- Provide detail of the elements of uncertainty (specific to the business) and consideration of the impacts on the business where the position is subject to or impacted by uncertainty.
- Connect to wider reporting within the report, such as risk and viability disclosures.

Specific elements of uncertainty relevant to the next 12 months might include (but are not limited to):

- Timing of resumption of operations.
- Further restrictions that limit the return to normal operations.

- Restrictions placed on government (or other) capital.
- Timing and continuation of government schemes and support packages.
- The outcome of capital-raising actions.
- The outcome of discussions with banks or other 'debt' or 'finance' providers.
- The outcome of discussions with landlords.
- Short-term impacts of pricing changes to revenue and expenses.
- Impacts on human capital.
- Impacts on supply chain.
- Impacts on customers.

The next few pages provide some examples of going concern disclosure which cover some of the elements above.

ICAEW guidance

The Institute of Chartered Accountants of England and Wales's Financial Reporting Faculty have released some [guidance](#) to help companies and others with practical approaches to going concern and reverse stress testing.

Questions for boards

Is the company a going concern?

- Does management intend to liquidate the entity or to cease trading, or has no realistic alternative but to do so?
- Does the entity have a history of profitable operations which are expected to continue and have ready access to financial resources, sufficient for the company to meet its obligations over at least the next 12 months?

Has the assessment considered factors relevant to COVID-19?

- How have COVID-19, the government and market responses impacted the factors management consider important for going concern?
- Has the assessment considered impacts on customers, suppliers etc?
- Does the assessment reflect the terms and timings of funding, including the short-term government funding schemes?

Is the disclosure sufficiently detailed?

- Is the disclosure clear on the decision reached and the rationale?
- Are there relevant factors, uncertainties and contexts that need to be understood?
- Is the disclosure on going concern sufficient to understand the board's decision?
- How does the going concern disclosure interact with viability and risk disclosure?

FCA guidance (issued on 27 May 2020)

Statement on market practice on going concern assessments

We understand that some issuers also have concerns about how to address coronavirus-related uncertainties in the 'going concern' assessment they perform whenever they produce financial statements.

The measures we have taken on deadlines for the publication of annual and half-yearly financial reports will go some way to addressing this by allowing more time to perform these assessments. However, we recognise they may not address all the concerns that issuers have. We understand that issuers may also face difficulties where the auditor's review of the assessment highlights a need for auditors to include remarks in their opinion. Issuers are concerned that these additional remarks will be viewed unduly negatively by investors and intermediaries.

As we said in our [joint statement](#) by the FCA, FRC and PRA on 26 March 2020, in the extraordinary circumstances of the coronavirus pandemic, it is likely that more companies' financial statements will need to include such disclosures. This is an inevitable consequence of the disruption companies face. It is vital that investors are properly informed as to the impact of coronavirus. Therefore, we are continuing to urge issuers and auditors to be clear and transparent about these impacts in their financial statements.

However, it is equally important investors and intermediaries understand what these disclosures mean and react appropriately. The Financial Reporting Council published useful guidance on the meaning of the various additional disclosures auditors may include in their reports.

As we said in our joint statement on 26 March, in these extraordinary circumstances, previous market practice needs to adjust. Market participants, including intermediaries, should not draw unduly adverse inferences from these disclosures, nor from issuers changing their financial calendars to make use of the extra time we have allowed them.

We continue to encourage investors, lenders and other users of financial statements to take into account the unique set of circumstances arising from coronavirus which might result in uncertainty in companies' financial positions when assessing their response to such disclosure.

The original statement can be found [here](#).

Practice example – Going concern



Team17 Group plc

Annual report for year ended 31 December 2019
Page 59



What is useful?

Team17 highlights that it has considered the impact of COVID-19 by carrying out a sensitivity analysis and as a result confirms that sufficient cash is available to meet its obligations over the relevant period.

Going concern

Management has produced forecasts that have also been sensitised to reflect plausible downside scenarios as a result of the COVID-19 pandemic and its impact on the global economy, which have been reviewed by the directors. These demonstrate the Group is forecast to generate profits and cash in the year ending 31 December 2020 and beyond and that the Group has sufficient cash reserves to enable the Group to meet its obligations as they fall due for a period of at least 12 months from the date of signing of these financial statements.

As such, the directors are satisfied that the Group has adequate resources to continue to operate for the foreseeable future. For this reason they continue to adopt the going concern basis for preparing these financial statements.

Practice example – Going concern



AG Barr plc

Annual report and accounts for the year ended
25 January 2020

Page 116

The directors have adopted the going concern basis in preparing these accounts after assessing the principal risks and having considered the impact of a severe but plausible downside scenario for COVID-19. The major variables are the depth and the duration of COVID-19. The directors considered the impact of the current COVID-19 environment on the business for the next 12 months, the viability period and the longer term. Whilst the situation evolves daily, making scenario planning difficult, we have considered a number of impacts on sales, profits and cash flows. We have assumed that our operations remain open and that we will continue to be able to sell our products to customers, consistent with DEFRA guidance. Whilst the virus may impact across many functions of the business from supply chain to the ability of our customers to service consumers, it would most likely manifest itself in lost volumes and require significant action in relation to operational cost reductions. The 2 main divisions will be impacted differently, with Barr Soft Drinks operating mainly in multiple retail (take home) and convenience (out of home) outlets and Funkin mainly within the on-trade and leisure sectors. Overall, we scenario planned several out turns with volumes dropping significantly (in the range of 30-40%) and the impact lasting for a significant part of 2020. The revenue and operational leverage impact of such a volume loss would have a major negative impact on Group profitability however the scenario modelling would indicate that the Group would remain profitable over the next 12 months and we would anticipate a recovery in the following years.

Throughout this severe but plausible downside scenario, the Group continues to have significant liquidity headroom on existing facilities and against the revolving credit facilities financial covenants.

The directors believe that the Group is well placed to manage its financing and other business risks satisfactorily, and have a reasonable expectation that the Group will have adequate resources to continue in operation for at least 12 months from the signing date of these consolidated financial statements. They therefore consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

What is useful?

A.G. Barr highlights that COVID-19 has been considered for assessing going concern and medium and longer-term viability. It confirms it has carried out scenario analysis, considering a number of factors. It also states the key assumption (Staying open) and confirms it has sufficient headroom on financing facilities.

Practice example – Going concern



Key areas of focus for the Audit & Risk Committee during FY'20

Going concern and viability assessments

The Committee reviewed and advised the Board on the Group's going concern and viability statements included in this Annual Report and the assessment reports prepared by management in support of such statements. The current and anticipated impact of COVID-19 was considered as part of the review. The external auditor discussed the statements with the Committee and reviewed the conclusions reached by management regarding going concern and viability.

What is useful?

Trainline provides some detail around how COVID-19 has been factored into the forecasts used to underpin its going concern assessment. It also highlights a number of actions. The statement is supported by detail in the audit committee report on oversight over the process.

Trainline plc

[Annual report and financial statements for the year ended 29 February 2020](#)
Page 55, 77

Going concern

The Governance Code requires the Board to assess and report on the prospects of the Group and whether the business is a going concern. In considering this requirement, the Directors have taken into account the Group's forecast cash flows, liquidity, borrowing facilities and relating covenant requirements and the expected operational activities of the Group. All of these forecasts included the waiving of the financial covenant in respect of the Group's £350 million Revolving Credit Facility until August 2021 as announced by the Group on 29 April 2020 and the expected impact of COVID-19 on the Group's performance.

Though the scenario is considered to be very unlikely, as part of the going concern assessment the Group prepared a cash flow forecast which considered the Group's ongoing cash outflows and assumed no revenue inflows. The analysis confirmed the Group's current liquidity position would enable the Group to operate with no cash inflows for a period of at least 12 months from the date of signing these financial statements.

Having due regard to these matters and after making appropriate enquiries, the Directors have a reasonable expectation that the Group and the Company have adequate resources to remain in operation until at least 12 months after the approval of these Financial Statements. The Board have therefore continued to adopt the going concern basis in preparing the consolidated Financial Statements.

Key areas of judgement and estimation

Issue Considered

Going concern

The going concern disclosure is an area of judgement. Given the current COVID-19 pandemic and the resulting economic conditions the level of uncertainty around this judgement is considered higher in the current environment. Additionally there is significant heightened public interest and scrutiny around the ability of companies to continue for a period of 12 months should these conditions prevail.

How the issue was addressed

The Committee considered the work performed by management in assessing the Group's ability to continue as a going concern, particularly around its consideration of the impact of COVID-19 and the steps taken to protect the Group's liquidity. As part of this review the Committee reviewed management's 'worst case' cash burn scenario which showed the Group has sufficient cash and liquidity headroom to continue for a period of greater than 12 months with no sales. This combined with the covenant waiver led the Committee to conclude there is no material uncertainty around the Group's ability to continue as a going concern and as such the disclosures in this area are appropriate.

Practice example – Going concern



GOING CONCERN

The Group monitors its funding position and its liquidity risk throughout the year to ensure it has access to sufficient funds to meet forecast cash requirements. Cash forecasts are regularly produced based on, inter alia, the Group's latest life of field production and expenditure forecasts, management's best estimate of future commodity prices (based on recent forward curves, adjusted for the Group's hedging programme) and the Group's borrowing facilities. Sensitivities are run to reflect different scenarios including, but not limited to, changes in oil and gas production rates, possible reductions in commodity prices and delays or cost overruns on major development projects. This is done to identify risks to liquidity and covenant compliance and enable management to formulate appropriate and timely mitigation strategies.

Management's base case forecast assumed an oil price of US\$65/bbl in 2020 and 2021 respectively and production in line with prevailing rates. In January 2020, the Group publicly announced the agreement it had reached to undertake the following corporate actions (together the 'Corporate Actions'):

- an amend and extend ('A&E') of all of the Group's financing facilities, including extension of maturity from May 2021 to November 2023;
- the proposed acquisition of a 25 per cent working interest in Tolmount from Dana and interests in Andrew and Shearwater from BP (together the 'Acquisitions' or the 'Acquired Assets');
- entering into a US\$300 million bridge facility to partly finance the Acquisitions (the 'Bridge Facility'). Based on current forecasts we do not expect to utilise the Bridge Facility; and,
- raising equity from shareholders via a combination of a placing and a rights issue (the 'Equity Raise'), which is fully underwritten.

Premier Oil plc

Annual report and financial statements for the year ended 31 December 2019

Page 49

What is useful?

Premier Oil details its base case and assumptions, and highlights that it has undertaken some sensitivity analysis.

Practice example – Going concern



The above actions are expected to be approved via a court scheme of arrangement in March 2020. Assuming approval is obtained, the Group will request that shareholders approve the Equity Raise and Acquisitions in Q2 2020. In February 2020, more than 75 per cent of the Group's creditors voted to support the Group's scheme of arrangement. Accordingly, management expect the above Corporate Actions to be approved and completed in Q3 2020. The expected completion of the Corporate Actions is reflected in the base case forecast. However, as sanction of the scheme of arrangement is subject to court approval, and particularly given the scheme is currently being opposed by one creditor, approval is not yet certain.

At 31 December 2019, the Group continued to have significant headroom on its financing facilities and cash on hand. The Group has run downside scenarios, where oil and gas prices are reduced by a flat US\$10/bbl throughout the going concern period and where total Group production is forecast to reduce by 10 per cent. In the downside scenarios applied to the base case forecast, individually and in combination, there would be no forecast covenant breach during the 12 month going concern assessment period.

In addition, the Group has run downside scenarios where the Corporate Actions do not complete either because of a rejection of the scheme by the court or due to rejection by shareholders. In the event that the Corporate Actions do not complete, and applying the base case assumptions to Premier's existing assets, the forecasts show that the Group will have sufficient financial headroom for the 12 months from the date of approval of the 2019 Annual Report and Accounts, even if the Corporate Actions do not complete. However, if the Corporate Actions do not complete and downside price and/or production scenarios materialise, in the absence of any mitigating actions, a breach of one or more of the financial covenants during the 12 month going concern assessment period would arise and the Group's financing facilities would be classified as current liabilities in subsequent reporting periods. This potential breach could be mitigated by asset disposals, such as the Group's interest in the Zama prospect, as well as further hedging activity or deferral of expenditure.

Currently, due to fears over the spread of COVID-19 and the impact this may have on global demand for oil, oil prices have fallen to levels not seen since early 2016 and below the sensitised case above. If oil prices were to remain at these levels, and the Corporate Actions described above did not complete, the Directors believe that the mitigating actions identified above would prevent a breach from occurring.

Based on management's expectation that completion of the Corporate Actions is probable, and considering the downside scenarios run, including the Corporate Actions not completing, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Therefore, the Directors continue to adopt the going concern basis of accounting in preparing these consolidated financial statements.

In the remote scenario whereby the Corporate Actions do not complete, there is a sustained fall in the oil price, and management is unable to deliver any mitigating actions, in the event of a forecast covenant breach, management have every expectation that either a covenant waiver or forbearance from the required number of lenders would be received, which would avoid an acceleration of repayment of the Group's financing facilities during the going concern period.

What is useful?

Premier Oil highlights that COVID-19 has impacted one of its assumptions beyond the sensitivity conducted. It has considered this impact as well as a failure in corporate actions, and believes mitigating action could be taken. In the disclosure, it also considers circumstances where mitigations do not occur or are not effective.

Section 2

Risk reporting

Reflecting on risk

In the original project on [risk and viability](#) (and the related [implementation study](#)), the Lab considered what types of information are useful for investors when considering risks. However, much of the current disclosure around risk is focused on longer-term risks. Where there are very short-term situations, a slightly different approach is needed.

Investors note that not all risks are equal. As the time horizon becomes shorter, the level of information they want increases. An example of a shorter-term situation highlighted as part of our implementation study was (is) the uncertainty around Brexit. Our discussions with investors on that shorter-term uncertainty identified some elements of disclosure that are also useful here:

- **Consistency in reporting** – While much of the FRC and Lab guidance focuses on the Annual Report, in times of uncertainty there is a need to focus on shorter-term reporting. Ensuring that such ad-hoc reporting on risk reflects and references the wider annual report disclosure is helpful for investors, or, where different, such differences are highlighted and described.
- **Focus on the big picture, for now** – In the short term, investors highlight that they need big-picture information – they accept that the current level of disclosures might not be perfect. Companies should focus on the most relevant issues such as liquidity, solvency and operational matters. As the situation becomes clearer, further information can be provided.
- **Focus on timing of issues** – Time horizons have shortened, therefore clarifying timing of any matter (or by which point more clarity is needed) is very useful. This is an investor expectation across communications.
- **Provide movement** – COVID-19 has impacted many aspects of company operations and finances. Therefore, clarity on the impact on individual risks is useful, as well whether those impacts are short or long-term. Impacts will likely be seen to both the risk itself, and to how it is mitigated.
- **Clarify changes in risk appetite** – Severe shocks such as COVID-19 may make companies question the level of residual risk and their views on risk appetite. Clarifying any changes made as a result is useful to investors.
- **Think about a split that makes sense** – Given that the current issues are both global and local, there might be material, relevant risks that need to be put in the context of specific geographies, operations or segments.

FRC guidance

The FRC's Corporate Reporting Review team recently published information for companies reminding them about their [obligations for reporting on principal risks](#).

The FRC encourages companies to consider carefully what disclosures they might need to include in their year-end accounts relating to these events. Companies should consider whether to refer to the possible impact of COVID-19 on their business in their reporting of principal risks and uncertainties. Where mitigating actions can be taken, these should also be reported alongside the description of the risk itself. As well as possible inclusion within a company's disclosures of principal risks and uncertainties, the carrying value of assets and liabilities might also be affected with a need to perform additional impairment tests and to assess whether leases have become onerous.

Updating risk

Given the timing of the reporting cycle for many companies, a significant number will now need to consider how to reflect COVID-19 risks in their half-year report.

Companies should be considering whether they should update their risks for the half-year disclosures. Given the circumstances, it is likely that they will need to provide an update to the market in their half-year report. The most successful risk disclosures are likely to consider the issues raised by COVID-19 holistically, and with specific reference to the company's circumstances.

Global or specific risk

Only a small number of companies had identified pandemic as a principal risk before COVID-19. Even those that had considered such a risk could not anticipate the ultimate level of impact that COVID-19 and government responses have had.

For some companies COVID-19 represents a significant issue in its own right and warrants a principal risk. However, for other companies the risk faced may not be COVID-19 itself, but rather its impact on other risks such as supply chain, cyber security, financing or health and safety. For others, COVID-19 might not be a risk at all.

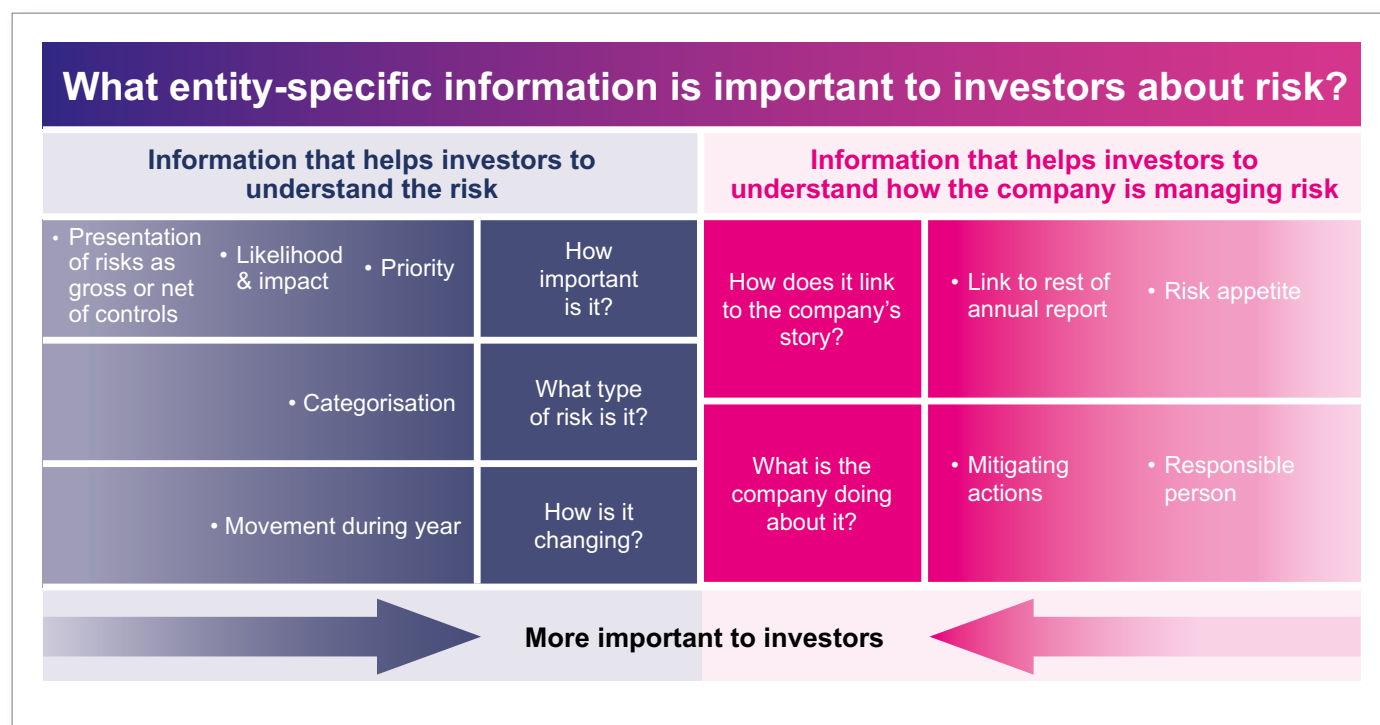
We have included examples of the first two types of disclosure on the next few pages.

No matter which approach companies choose, it is likely that COVID-19-related risks will feature more prominently in disclosures in the upcoming year. The Lab's full [report on risk](#) considered more extensive characteristics that investors sought from reporting on risks and questions boards might consider. A summary is to the right.

Questions for boards on principal risks

- Does the description of principal risks identify how they are specific to the company?
- Are the risk disclosures detailed and specific enough to understand **why** the risk is material, and over what time period?
- Is it clear to the reader how the company categorises and prioritises principal risks?
- Are movements in principal risks, including movements into and out of the principal classification, explained?
- Do the mitigating activities include specific information that allows the reader to understand the company's response and current stage of mitigation?

FIGURE 2 – Attributes of good principal risk disclosure



Practice example – Risk



Assessment of emerging risks

As well as assessing ongoing risks, we continue to consider how the business could be affected by emerging risks over the long term. These are risks which may develop but have a greater uncertainty attached to them. It is often possible to predict the potential impacts of emerging risks, but less possible to predict their likelihood, timing and velocity.

At each quarterly Risk Committee meeting, each Division is asked to highlight any new or emerging risks. We also hold specific sessions with Senior Management teams to scan for significant emerging risks. During the year, the Risk Committee held a specific review of emerging risks and concluded that these are captured effectively through our risk management processes.

As a business operating in the Knowledge and Information Economy, our products have a role to play in helping our customers and their markets develop in a sustainable way, as described on pages 48 to 51.

Informa's major branded events convene international markets, industries and professional communities, helping businesses

Based on a risk assessment of the most impactful no-deal Brexit scenario and risk assessments at Group, Divisional and functional levels, Brexit is not a principal risk to the Group. The potential financial impacts are considered immaterial due to the diversified international breadth of Informa's business and a low reliance on cross-EU/UK border physical goods movements to deliver our services and products.

Where Brexit risks exist, detailed contingency planning has taken place to minimise business interruptions, including in areas such as the physical supply of books to customers in the EU, and planning for any initial logistical and travel challenges for events close to the proposed exit day.

In the area of tax, the Group takes a principled and low risk approach, which limits the likelihood of disputes with tax authorities and makes unexpected material tax liabilities unlikely.

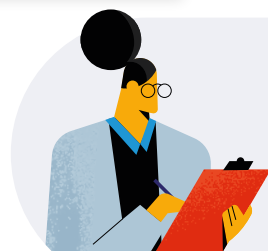
The risk of currency fluctuation exists, particularly in the relative value of sterling and the US dollar, which continues to be managed by the Group Treasury team by ensuring the currency of the Group's borrowing are aligned with the currency of the Group's generation.

At the time of going to press, COVID-19 is an emerging risk. As health and government authorities are reporting, the situation continues to develop in China, Asia and in locations around the world. We are following the biosecurity and safety guidance of the relevant government and local authority as well as guidelines issued by the World Health Organization and have adopted a postponement programme to reschedule and rephase affected event.

Planning and response are being led by the EMT based on an internal framework for decision making, a regular assessment of local, personal and commercial impacts and actions to support colleagues and customers. Communications and guidance are being regularly issued internally at a Group level as well as divisionally and locally. We will continue to closely monitor, assess and respond to this risk as it develops.

International Task Force on Climate-related Financial Disclosures regarding expanding available information on climate change impacts. See our Sustainability Report, available on the Informa website, for additional details on our climate change consideration.

The demand for Open Access to academic research continues to grow at a consistent and steady rate, creating both opportunities and challenges for publishers. Taylor & Francis has invested significantly in strengthening its OA capabilities and output to ensure it is offering flexibility for customers as described on pages 73 and 74. The full range of potential opportunities and risks continues to emerge, but this risk is not considered material for the Group.



Informa PLC

Annual report and accounts for year ended
31 December 2019
Page 83 and 89

What is useful?

Rather than a specific risk, Informa identifies COVID-19 as an emerging risk (based on the report timing) and references it as a key element of Major Incident risk.



10. Inadequate response to major incidents

We operate internationally and are exposed to major incidents and global events. These can be caused by extreme weather, natural disasters, major disease outbreak, military action, civil unrest or terrorism. In most cases, there is relatively little businesses can do to control causes of major incidents. Major incidents have the potential to cause harm and injury to people, venues and facilities and severely interrupt business. If the Group's response to a major incident is inadequate, this could also result in reputational damage and potentially criminal and civil investigations.

Modelled for viability assessment: Yes

EMT owner: Group Chief Operating Officer

Movement in the year: We have raised the likelihood rating to reflect that we have more exposure to major incidents and in the context of the COVID-19 outbreak.

Risk appetite

We have a low appetite for the risk of not responding adequately to a major incident and proactively manage this.

Mitigating activities

- Under the leadership of the Head of Group Health, Safety and Security, a new business resilience programme is being established to address and co-ordinate incident response, covering all phases of planning and emergency response to business recovery
- Emergency response plans are put in place for events specific to the event, its location and operational team
- Divisions consider known extreme weather patterns when planning event schedules
- The Group considers terrorism threats, proximity to likely terrorist targets, and potential unrest or protests in event planning. We apply defined security risk assessments for high risk operations so that appropriate measures can be taken to protect customers, colleagues and business partners
- The Health, Safety and Security team provides support and advice in the event of an emergency and, in severe circumstances, a dedicated Crisis Council would convene to direct the Company's response
- We take out insurance that would reduce some potential impacts of major incidents

Practice example – Risk



Emerging risk

Covid-19

Link to strategy



Risk

The global coronavirus pandemic involving the spread of Covid-19 presents a number of different risks to the business. The spread is rapid and the global economic outlook uncertain. We have a large workforce and operate in a wide range of business sectors in over 90 countries. It follows that the risks of adverse health and safety, operational and financial impacts arising from the pandemic and the associated governmental responses in the markets where we operate could be significant.

The safety of our employees and those in our care is our first priority and is at the forefront of our response to the pandemic.

The counter measures adopted by governments around the world as they seek to mitigate the impact of the pandemic, the resultant disruption and economic effect in the countries where we operate and the actions taken by our customers in response will impact on our operations and financial results leading to potential decreases in revenue, increases in costs and adverse effects on profits and cash flows.

The most material immediate reductions in demand for our services as a result of pandemic-related restrictions have arisen in the ports & airports, transport & logistics and leisure & tourism sectors, which, together, represent around 6% of our annual revenues and in respect of our retained traditional cash businesses which represent around 4% of our annual revenues. There may be further demand reductions in other sectors driven by the economic effect of governmental restrictions, although this is likely to vary substantially from market-to-market and, in some cases, we are seeing increased demand in other sectors (for example in healthcare-related services in the Americas and Europe & Middle East regions). Increased operating costs are also likely to result from additional investment in personal protective equipment, increased workforce sickness levels and the need to furlough staff, although, in a number of geographies the impact of this is being mitigated by government financial support arrangements.

Risk mitigation

G4S has taken action across a wide range of fronts in mitigation of the risks presented by the pandemic. We have instituted protective measures for staff in the "frontline", which in some cases included wearing protective equipment and guidelines to follow in certain security situations.

All our regions have rolled out agreed Business Continuity Plans to ensure we are actively managing the disruption presented by this pandemic. We provide essential services for our customers and the continuation of these services is a key priority.

Contingency plans have been implemented in consultation with our customers on whose sites we operate and we are implementing a range of measures to mitigate operational and commercial risks as they emerge.

We are working closely with customers to understand their actions in response to the pandemic, in some cases requiring extra security services, in some reducing or suspending services. We are working diligently on redeploying and supporting our employees being affected by the change in demand from customers and ensuring we understand, and engage, the help and support available from various governments.

From a funding perspective, we are adopting a prudent stance in relation to our liquid resources. We have a favourable debt maturity profile and a strong liquidity position, which has been further enhanced by the sale of the conventional cash businesses. The Board has not recommended payment of the 2019 final dividend and we have implemented strict cost and cash flow management measures to ensure we protect the Group's financial position.

Mitigation priorities for 2020

We are responding dynamically to the rapidly changing situation that the Coronavirus pandemic has created. We will continue with our current focused management approach to protect the company and its key stakeholders until the impact of Covid-19 abates.

Our priorities remain the health and safety of our staff, customer service, financial discipline and business continuity.

G4S plc

Integrated report and accounts for year ended 31 December 2019

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What is useful?

G4S identifies COVID-19 as a specific risk and highlights some of the current and potential impacts. Whilst noting the significant uncertainty, G4S also highlights some of the actions it has taken, including activating continuity plans and focusing on liquidity.

Section 3

Viability statement

Viability in times of uncertainty

The Lab's previous project on [risk and viability](#) (and our [implementation study](#)), highlighted the value of providing information about a company's future prospects and viability to investors.

However, the outcomes of COVID-19 on businesses, lives and livelihoods remains very uncertain and companies need to be free to adapt rapidly to circumstances, both positive and negative. The lack of certainty has meant that many companies are reluctant to provide a perspective on the future.

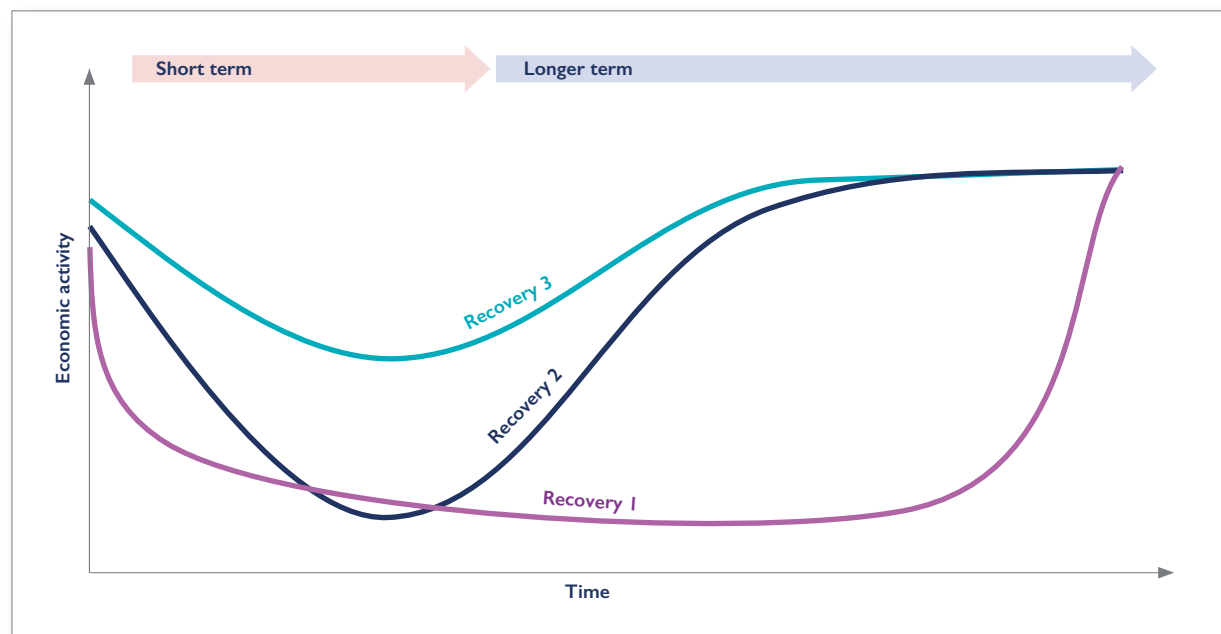
But it is the longer-term perspective, inherent within the viability statement, that should provide confidence to companies to make such statements.

While generally the short-term is more certain than the longer-term, the current circumstances in some ways reverses this equation.

This means that there might be less certainty over a company's (and the economy's) short-term future than its longer-term viability (with appropriate caveat and context).

Therefore, a combination of going concern (see earlier Section 1) and viability statements are necessary to show a company's position and expectations.

FIGURE 3 – Expected economic circumstances may vary significantly in the short term but converge over the longer term.



Lab comment – Viability – born in a crisis

The financial crisis identified a desire for corporate reporting to consider a future that is longer than the 12-month period that is often the focus of going concern assessments. Lord Sharman was tasked with considering how to encourage a longer-term perspective. One of the recommendations of the Sharman Inquiry was for companies 'to provide information to stakeholders about the economic and financial viability of the company and to help demonstrate the directors' stewardship and governance of the company in that respect.'

The report concluded that information supporting this 'should be specific to the entity and avoid standardised language. The directors should be free to rely on their judgement, experience and understanding of the underlying business in making their assessment and in disclosing what they believe will be most relevant to shareholders and other stakeholders.' It also highlighted the need for consideration of solvency risk as well as liquidity risk, which had previously been the focus of going concern assessments:

'The evidence we received confirmed that for many the principal focus of the going concern assessment process is on liquidity and that, outside the financial services sector, there is little focus on solvency... Solvency risk on the other hand is about the viability of the business model and the maintenance of capital. Solvency risks are therefore longer term and may be more qualitative and judgmental, whereas liquidity risks tend to be more short term and more quantitatively based.'

Useful disclosure

For investors, good viability disclosures provide detail about the prospects of a company and its viability. The [Lab's previous report on viability](#) covered key elements that investors valued including:

- Company-specific detail and context on both prospects and viability.
- Details on actions and expectations.
- Details of realistic scenarios considered and key assumptions used.

Key questions for boards based on that report are included on the right. However, COVID-19 adds a number of specific elements that may also need to be considered.

COVID-19 actions

The actions companies take to reduce costs and cash outflows are only short-term mitigations. Over the medium term, companies may need to take more fundamental and radical action that ultimately goes to their ability to remain viable.

Investors want to understand the context of these decisions, and see enough detail, for them to make their assessment of the impacts that structural changes might have on the company over that longer-term future.

Important disclosures might include:

- Specific short and medium-term COVID-19-related factors that have been considered, such as availability of government support, employee and supplier-related issues.

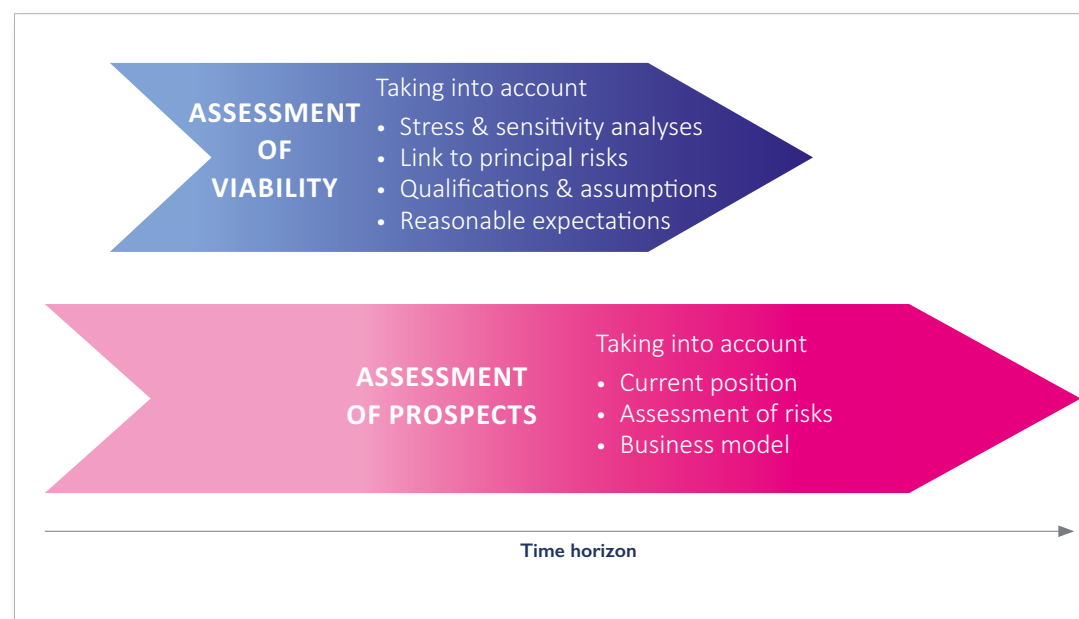
- Information on viability across the group, and within the ultimate parent, including on inter-group guarantees and commitments.
- Details of how the board is monitoring and controlling the situation.
- Details on business model resilience and actions with reference to the situations highlighted by COVID-19 (e.g. consumer trends/supply chain).
- Details of how COVID-19 has been reflected in scenarios and stress testing of both prospects and viability.

Within the next few pages we have included some examples of current reporting practice on viability.

Questions for boards on the viability statement

- Does the disclosure differentiate between the directors' assessment of long-term prospects and their statement on the company's viability, and clarify why different time horizons are used?
- When disclosing long-term prospects, has the board considered their stewardship responsibilities, previous statements they have made (especially in raising capital), the nature of the business and its stage of development, and its investment and planning periods?
- Does the viability statement disclose any relevant qualifications and assumptions when explaining the directors' reasonable expectation of the viability of the company?
- Is the link between the viability statement and principal risks clear to the reader, particularly in relation to the scenario analyses?
- Are the stress and scenario analyses disclosed in sufficient detail (and quantification) to provide investors with an understanding of the nature and potential impact of those scenarios, and the extent and likelihood of mitigating activities?

FIGURE 4 – The two-stage process in developing a viability statement



FRC guidance

Given the systemic uncertainties that currently exist, many boards will be less confident in stating that they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over a period of assessment (“the viability statement” as required for compliance with the UK Corporate Governance Code).

However, the FRC stresses the following points:

- Boards are required to have a “reasonable expectation” of the company’s viability over the period of assessment – during the current emergency and unprecedented pace of change, any reasonable level of expectation would naturally carry a much lower level of confidence;
- Being clear on the company’s specific circumstances and the degree of uncertainty about the future is important information; and
- When presenting a company’s viability statement, its board should draw attention to any qualifications or assumptions as necessary.

In describing any qualifications to the statement, a board should describe the limits of the predictions, the level of confidence with which they have been made and the uncertain future events that could prove critical to viability.

Similarly, the key assumptions made and the future scenarios considered, should be explained. Many companies already use scenario and stress testing in developing their statements and this should continue as far as practicable. The use of reverse stress testing, to identify future scenarios that could lead to corporate failures, is also good practice.

At this time, the need for fuller disclosure is paramount.

All the guidance from the FRC is available [here](#).

Practice example – Viability



WHITBREAD PLC

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Whitbread
Annual Report and Accounts 2019/20

PRINCIPAL RISKS AND UNCERTAINTIES

Understanding and responding to risks

Risk arises from the operations of, and strategic decisions taken by, every business. It is not something that can be avoided but should be actively managed and harnessed in pursuit of business objectives.

The Board has ultimate responsibility for risk management throughout the Group and determines the nature and extent of the risks Whitbread is willing to take to achieve its objectives. Risk is managed proactively by the Executive Committee. Certain responsibilities, such as overseeing the systems of risk management and internal control, have been delegated by the Board to the Audit Committee, which completes an annual review of the effectiveness of these processes.

The business units complete an annual review of the risks to the achievement of their strategic goals, whilst also taking into account the key operational risks, which are updated regularly. A robust top-down risk assessment is also completed to capture the Board's views on the principal risks facing Whitbread and its risk appetite for each. Actions required to manage these risks are monitored and reviewed on a regular basis. Emerging risk themes and trends from industry and professional bodies, and peer networks, are collated and reviewed biannually by the Executive Committee and managed through the risk management framework as appropriate. The principal risks identified, together with a summary of key mitigations, can be found on pages 55 and 57. Climate change, of which sustainability is a key area, is an emerging risk for Whitbread. Our approach to identifying and managing this is embedded into the risk management framework and integrated through policies and procedures.

impact of the risks and uncertainties as outlined on pages 55 to 57 of the Annual Report and the uncertainty regarding the duration, extent and ultimate impact of the COVID-19 pandemic.

The business planning process reviewed by the Board, as part of the Strategic planning process, is over a three and five-year timeline, with the Board acknowledging that in a COVID-19 environment the certainty of those plans, the potential fluctuations in the global economy, the impact on competitors and customer behaviour in a post COVID-19 world is far from certain. Multiple scenarios were modelled through the process and were reviewed by the Board.

In making the viability statement, the Board carried out a robust assessment of the principal risks and uncertainties facing the Group, which could impact the business model, focusing specifically on the impact of COVID-19 and the future performance, solvency and liquidity of the Group. These scenarios included an assessment of the Group's longer-term prospects, including any further uncertainties that may come from the UK leaving the EU, and climate change. The scenario modelling and sensitivity analysis were applied to forecasted cash flows. These scenarios included full hotel closures for an extended period with revenues not returning to pre-COVID-19 levels until FY23.

Should the impacts of the pandemic on trading conditions be material, the business's long-term strategy for value creation in the UK and internationally remains unchanged. The combination of compelling structural opportunities and the advantages of our unique operating model should enable the business to outperform in the UK, take market share and to capitalise on the material growth opportunity in Germany. These strong fundamentals, combined with an appropriate capital structure, should drive long-term value.

Whitbread PLC

Annual report and accounts for the year ended 27 February 2020

Page 54

What is useful?

Whitbread cover viability and risk in a single section. The viability statement notes some of the considerations that the board has taken account of and highlights the longer-term prospects of the business. The section links through to risk and going concern.

Viability statement

The Corporate Governance Code requires that the directors have considered the viability of the Group over an appropriate period of time selected by them. In considering the appropriate period, the directors debated reducing the three-year viability period to align with the 12-month going concern period.

The directors, in making the assessment that three years was appropriate, considered the current financial and operational positions of the Group, the potential

The directors, in making the assessment that three years was appropriate, considered the current financial and operational positions of the Group, the potential

Whilst the impact of COVID-19 on the business will be material, despite this, the business's long-term strategy for value creation in the UK and internationally remains unchanged. The combination of compelling structural opportunities and the advantages of our unique operating model should enable the business to outperform in the UK, take market share and to capitalise on the material growth opportunity in Germany. These strong fundamentals, combined with an appropriate capital structure, should drive long-term value.

Based upon this assessment, the sensitivity around the significant loss of revenue built into the scenarios tested, the directors confirm that they have reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year assessment period.

Practice example – Viability



WPP plc

Annual report for the year ended 31 December 2019

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What is useful?

WPP combines viability and going concern into a single section. The disclosure highlights some of the key factors that the board considered in relation to COVID-19.

VIABILITY STATEMENT

RISK ASSESSMENT STATEMENT OF PROSPECTS

Understanding of the Group's business and strategy detailed on pages 9 and 10, and its impact on its prospects.

Group's business model, transformation programme and diversification across operating services businesses which operate in different countries, with a broad spectrum of technology partners and suppliers. A record of setting up new businesses, are all relevant to any assessment of prospects and viability.

Directors assess the Group's prospects on a regular basis through the financial reporting and planning process, the business plan at each Board meeting, quarterly reviews of our businesses by the executive and ongoing reviews of the Group's liquidity, cash flows and funding requirements. The Board has considered short-term risks and opportunities for the future discussed in the Strategic Report. The potential impact of competition for and competition from consulting firms, digital disruption, climate change and others. The Board has also considered the impact of the Covid-19 pandemic which is likely to adversely affect our business and our clients' and suppliers' businesses across the countries in which we operate. WPP has experienced and expects to continue to experience unpredictable changes in demand for our services from various sectors impacted by the pandemic.

VIABILITY STATEMENT

Directors' assessment of the Group's viability for the next three years has been made taking account of:

Covid-19
the uncertainty of the consequences and duration of the Covid-19 pandemic and mitigation strategies being mandated by governments in impacted countries; the adverse financial impact already being experienced by the Group, disruption to clients' economic activity and client financial pressures and the impact on our people caused by Covid-19;
the ongoing reviews, reduction in pitch activity as a consequence of Covid-19 short-term notice periods or assignment nature of many of the client engagements; the volatility of global economic conditions and impact of a global recession as a consequence of Covid-19 pandemic; and

- the Company's ability to cover interest payments on the Group's debt, to issue bonds and refinance bonds as they fall due given the potential impact of Covid-19;
- Other ongoing matters
 - the Group's current position and prospects;
 - the ongoing transformation programme updated in this report;
 - the changes taking place in our industry;
 - the long-term impact of technological disruption; and
 - the ongoing simplification of the Group structure and improving integrated service offering to clients.

This period has been chosen as it extends one year beyond our three-year transformation programme and strategic plan and aligns with our three-year budget process and reflects the Board's best estimate of the future viability of the Company. In testing the viability of the Company, we have undertaken a robust scenario assessment of the principal risks which could threaten the viability or existence of the Company. The potential impact of Brexit has been considered and it is not deemed to have a significant impact on this assessment. In the scenario modelling of the principal risks, we have stress tested our forecast cash flows to reflect a range of possible adverse effects of the Covid-19 pandemic on our business, clients and people and the potential impact of one or more of the Group's other principal risks occurring and leading to client loss, loss of reputation, contract breach, our inability to win new business, and the impact of revenue less pass-through costs decline. The Company's forecasts and projections took account of (i) reasonably possible declines in revenue less pass-through costs; and (ii) remote declines in revenue less pass-through costs for stress testing purposes as a consequence of the Covid-19 pandemic from April 2020 onwards compared to 2019; and considered the Group's bank covenants and liquidity headroom including the suspension of share buybacks and the final dividend in 2019 and cost mitigation actions being implemented.

The Company modelled a range of revenue less pass-through cost declines from 15% to over 35%. In the most extreme scenarios tested, the Directors have considered the further actions that could be taken to mitigate negative cash flow impact and ensure additional liquidity. The Directors have assumed that the Company will be able to refinance existing bonds and that trading conditions will stabilise in 2021 and, as a result, the Company will continue to operate

in accordance with its bank covenants. However the long-term viability of the Company could be impacted by other as yet unforeseen risks and the mitigating actions that have been put in place in respect of the principal risks, could turn out to be less effective than intended.

Having assessed the current position of the Company, its prospects and principal risks and taking into account the assumptions above, the Board has determined that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over a period of three years from 1 January 2020.

GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Financial review on pages 52-57 and Principal risks and uncertainties on pages 85-91. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial statements and the Notes to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. The Company's forecasts and projections, taking account of (i) reasonably possible declines in revenue less pass-through costs; and (ii) remote declines in revenue less pass-through costs for stress-testing purposes as a consequence of the Covid-19 pandemic from April 2020 onwards compared to 2019, considering the Group's bank covenant and liquidity headroom taking into account the suspension of share buybacks and the final dividend of 2019 and cost mitigation actions which are and which could be implemented, show that the Company and the Group would be able to operate with appropriate liquidity and within its banking covenants and be able to meet its liabilities as they fall due. The Company modelled a range of revenue less pass-through cost declines from 15% to over 35%. The Directors therefore have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

VIABILITY STATEMENT

The Directors' assessment of the Group's viability for the next three years has been made taking account of:

- Covid-19
 - the uncertainty of the consequences and duration of the Covid-19 pandemic and mitigation strategies being mandated by governments in impacted countries; the adverse financial impact already being experienced by the Group, disruption to clients' economic activity and client financial pressures and the impact on our people caused by Covid-19;
 - the ongoing reviews, reduction in pitch activity as a consequence of Covid-19 short-term notice periods or assignment nature of many of the client engagements; the volatility of global economic conditions and impact of a global recession as a consequence of the Covid-19 pandemic; and
 - the Company's ability to cover interest payments on the Group's debt, to issue bonds and refinance bonds as they fall due given the potential impact of Covid-19.
- Other ongoing matters
 - the Group's current position and prospects;
 - the ongoing transformation programme updated in this report;
 - the changes taking place in our industry;
 - the long-term impact of technological disruption; and
 - the ongoing simplification of the Group structure and improving integrated service offering to clients.

Practice example – Viability

Saga plc



COVID-19

The Group's Insurance business remains largely unaffected by COVID-19, and the Group has successfully been able to maintain operational capability throughout this period, with almost all colleagues working from home. However, the Group's Travel businesses are currently experiencing a very high level of disruption from the impact of the COVID-19 virus. Following advice from the UK Government that people over 70 years old should avoid travel at the current time and given operational challenges in almost all countries, the Group took the decision on 12 March to suspend Cruising until May and on 16 March decided to suspend Tour Operations for a period of six weeks. While customer demand for future departures remains positive, both for Cruise and Tour Operations, there remains considerable uncertainty as to when travel services will resume. It is likely that the period of travel suspension will continue beyond May.

The Group has therefore considered several adverse scenarios and has built contingency plans around a central stress test assumption that the Cruise business could be suspended for a period of six months, from mid-March to mid-September, with a suspension of Tour Operations until the end of August. Within this scenario the Group has also assumed that departures in the second half of the year, once travel operations have restarted, would recover slowly.

In this scenario the Group would expect revenues for the full year to be reduced by around 65% for Tour Operations and Cruise, with a 'drop-through' from lower revenues to Underlying Profit Before Tax of 15%-20% for Tour Operations and 55%-60% for Cruise, relative to plan assumptions. The difference between the two drop through rates is due to the fact that the Group operates with relatively low commitments in Tour Operations, and does not own travel infrastructure, compared to the ownership model for the Cruise business.

In the event of a suspension of travel for an extended period, the Group will be exposed to changes in the value of hedges relating to oil and foreign currency. These hedges are put in place to protect cash flows, but it is now expected that the Group will not require the level of oil or currency previously anticipated. As of 31 March 2020, the mark to market on such open hedges was a net loss of around £2m.

The Group would also be exposed to working capital outflows as a result of the return of customer advance deposits on cancelled departures. As at 31 March, total advance receipts for the Cruise business were £41m, of which around £27m related to departures from mid-May to the end of the year and a further £7m related to departures in 2021. Total advance receipts for the Tour Operations business at the same date were £69m, of which around £45m related to departures between mid-March and the end of June.

Saga plc

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31 January 2020
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What is useful?

Saga has brought together key elements related to COVID-19 into a note. The note provides context around impact on operations and how this feeds through into the scenarios used for stress testing.

Practice example – Viability

Saga plc

The Group expects that a significant portion of Cruise advance receipts will be retained, in return for discount vouchers and offers on future departures. For the Tour Operations business, customer refunds will primarily be met from cash held in the ring-fenced Travel business, with a much smaller provision of cash support from the Group to ensure that full compliance with regulatory cash requirements is maintained.

While a working capital outflow is likely to impact on the Group's financial position over the next six months, it is expected that a significant portion would reverse in the second half of the year as Travel operations restart, albeit with reduced bookings compared with previously planned levels.

Even in a scenario with a full suspension of travel for six months, and with a slow recovery in demand into the 2021/22 year, the Group is expected to remain in a strong position, for the following reasons:

- As at 31 March 2020 the Group had available cash resources of £92m, increased from £33m at the end of February, and significantly higher than the level needed to cover short term cash outflows. The increase in cash resources in March is primarily due to the receipt of £14m from the sale of two introductory healthcare businesses and a precautionary £50m drawdown on the Group's revolving credit facility (with a further £50m undrawn), partially offset by a £7m cash injection to the ST&H travel ring fenced group.
- The Group expects to receive cash proceeds of around £23m from the sale of Bennetts Motorcycling Services. This disposal is expected to complete in June 2020.
- In addition to the available cash resources of £92m the Group has a further £55m of cash in the ST&H travel ring fenced group, supporting £69m of advance customer receipts. The Group is prudently holding a higher level of cash in the ring fence than is required by the CAA.
- The Insurance business is performing well and is cash generative. While COVID-19 may have an impact on sales of travel insurance and on the PMI product, the core Motor and Home business is not expected to be materially impacted.
- No repayments are due on the Group's term loan until 31 January 2021, when £20m is due to be repaid; in the current financial year, two instalments of £10m each are due to be repaid in relation to the Spirit of Discovery, with no repayments on the Spirit of Adventure until at least February 2021.
- The Group has accelerated cost saving plans and will take further mitigating actions to reduce the impact of COVID-19 on earnings and cash.
- Given the uncertainty around the trajectory of the COVID-19 virus the Board of Directors is not recommending the payment of a final dividend for the 2019/20 financial year.
- Within this scenario the Group has not included any benefits from various government initiatives, other than an allowance for reductions in staff costs relating to 'furloughing' of certain colleagues that are directly impacted by the suspension of travel.

What is useful?

Saga includes details of some of the key assumptions underpinning its consideration and details some of the downside impact. It also highlights the differential impact on different elements of the group (insurance versus travel).

Practice example – Viability

Saga plc

The Group has also considered a further, more severe scenario that assumes the cessation of cruise and holidays trading until January 2021, including additional mitigating actions such as the deferral of capital payments on the debt facility used to fund the purchase of the Spirit of Discovery, deferral of certain tax payments into the 2020/21 financial year and a further reduction in operating costs.

While the Group is expected to remain in a strong position, in the scenarios outlined above, the ratio of net debt to EBITDA (excluding Cruise debt and EBITDA) would likely in the short term exceed the 3.5x covenant included in term loan and revolving credit facilities.

As a result, the Group has agreed changes to its bank debt facilities that provide it with additional financial flexibility. The amended covenants in short term banking facilities are shown below.

	Ex-cruise leverage ratio	Group interest cover
July 2020	4.75x	2.5x
October 2020	4.75x	1.75x
January 2021	4.75x	1.25x
April 2021	4.75x	2.0x
July 2021	4.25x	3.0x
January 2022	4.00x	3.5x
July 2022 and onwards	3.00x	3.5x

The covenants in the bank facilities will be tested quarterly while leverage excluding Cruise is greater than 4.0x and no dividends can be paid while leverage is greater than 3.0x. The Group will apply for a waiver of the covenants in the ship debt and is likely to apply for a debt holiday for the period to 31 March 2021 under a package of proposals that are being put together for the cruise industry.

While the impact of the COVID-19 situation cannot be accurately predicted and it is not possible to assess all possible future implications for the company, with these steps the Group believes that it has a secure financial position that will enable it to trade through the current disruption of the travel market.

What is useful?

Saga highlights the impact of the downside scenario on covenants and notes proactive management action. The detailed scenario is then reflected in both the viability and going concern sections.

Viability statement

The Directors have considered the viability of the Group over the five-year period to January 2025. The current COVID-19 situation has created an unprecedented challenge for businesses in making judgements regarding trading prospects. At Saga, we are focused on protecting the Group over the coming months and the key actions we are taking are outlined in the Going Concern disclosure on pages 130-131. On the assumption that the general business activities and the travel industry in particular can begin to recover at the start of 2021, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the next five years. The Directors recognise that uncertainty increases over time and therefore future outcomes cannot be guaranteed.

The Directors have determined the five-year period to January 2025, which to assess the Group's viability, as this period:

- a) is consistent with the planning horizon over which the Directors performance, capital and solvency requirements of the business
- b) includes the delivery of the second new ship
- c) includes the refinancing of senior bank facilities which took place in 2020
- d) includes consideration of the COVID-19 pandemic.

In making this statement, the Directors have considered the resiliency of its current position, the principal risks facing the business in severe effect of any mitigating actions. The Directors have considered each of the uncertainties (PRUs) detailed on pages 32-33 and the potential impact on the model, future performance, solvency and liquidity over the period. To account the availability of the Group's senior banking facilities, which mature in 2023 and are considered to be sufficient to meet the Group's needs.

Our list of PRUs, derived from our robust review of risks, was reviewed by Group Risk, to consider which risks might threaten the Group's ongoing performance. The potential financial impact of each outcome has been quantified and the likelihood of occurrence. Assessments of potential financial impact were derived from a range of similar incidents in the public domain. In assessing the impact of the COVID-19 pandemic, the Directors have considered appropriate management actions that may be taken by the Group in the event of severe but plausible downside scenarios. The assumption that the corporate bond will be refinanced when it matures in 2023 is based on the Group's current position.

The three largest sensitivities in terms of financial impact were identified as:

1. The impact of COVID-19 – as described within the Going Concern section
2. General insurance regulation – uncertain regulatory developments
3. A failure to deliver on our insurance strategy – insurance contract cancellations and has demonstrated good progress over the last year, business is going through a period of significant change, from a business perspective.

Going concern

The Directors continue to have a reasonable expectation that the Group has adequate resources to continue in operation for the next twelve months and that the going concern basis of accounting remains appropriate.

The Group's business activities, together with the factors likely to affect its future development and performance, its exposure to risk and its management of these risks, details of its financial instruments and derivative activities, and details of other financial and non-financial liabilities, are described throughout the annual report (see principal risks and uncertainties on pages 32-33; Operating and Financial Review on pages 34-47; audit, risk and internal control on pages 70-73; Audit Committee Report on pages 74-77; Risk Committee Report on pages 78-80, and notes on pages 130-200). As a consequence, the Directors believe that the Group is well-placed to successfully manage its business risks.

The COVID-19 outbreak has created a major challenge and a high level of uncertainty for all companies. Our Insurance division, being the largest operating segment in the Group, continues to perform well and cash generation is expected to be resilient, but we have had to pause trading in our Travel division. Where possible, we have equipped our staff to work from home and are focusing our efforts on protecting our people and giving strong support to our customers.

We have taken prompt action to protect the Group's cash flow including reducing costs, suspending dividends to shareholders, making a precautionary £50m drawdown on the revolving credit facility in March 2020 and we have renegotiated the net debt to EBITDA (excluding Cruise) covenant on our short term banking facilities from 3.5x to 4.75x.

The Group has undertaken stress testing that considered a range of potential impacts of the COVID-19 pandemic on its financial resilience. In a severe but plausible central scenario, the Directors have assumed the cessation of cruises until mid-September, with a slow recovery of load factors beyond that date, from 30% initially in September 2020, increasing to 60% by January 2021, then increasing across the course of 2021 to a pre COVID-19 level of 87% by January 2022; a delay in the delivery of the new ocean cruise ship, the Spirit of Adventure, from August 2020 to the end of November 2020, the impact of a cessation of holidays trading for five months until August, with adverse impacts on cancellations and booking rates for both holidays and cruises continuing into 2021. The scenario also assumed trading stresses in relation to the insurance business, namely an expected reduction in travel insurance broker sales during 2020 and a potential adverse impact on profits relating to Private Medical Insurance, with an estimated combined total profit impact on the Insurance business of a net £10m per annum in 2020/21 and 2021/22. The analysis also used prudent assumptions for refunds of customer bookings, made limited allowance for deferral of tax payments until the second half of the year and did not assume any deferral of capital payments on the debt facility for the Spirit of Discovery ship.

In addition to this, the Directors considered a further, more severe scenario that assumed the cessation of cruise and holidays trading until January 2021, including further mitigating actions such as the deferral of capital payments on the debt facility used to fund the purchase of the Spirit of Discovery, deferral of certain tax payments into the 2021/22 financial year and a further reduction in operating costs.

While the impact of the COVID-19 situation cannot be accurately predicted and it is not possible to assess all possible future implications for the company based on this analysis and in the scenarios assessed, the Group believes that it has a secure financial position that will enable it to trade through the current disruption of the travel market.

Section 4

Appendix

Detailed requirements – Going concern

Accounting standards

Going concern (IAS 1 para 25-26)

When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The degree of consideration depends on the facts in each case. When an entity has a history of profitable operations and ready access to financial resources, the entity may reach a conclusion that the going concern basis of accounting is appropriate without detailed analysis. In other cases, management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.

Auditing standards

ISA 570 on Management's assessment

Management's assessment of the entity's ability to continue as a going concern involves making a judgment, at a particular point in time, about inherently uncertain future outcomes of events or conditions.

The following factors are relevant to that judgment:

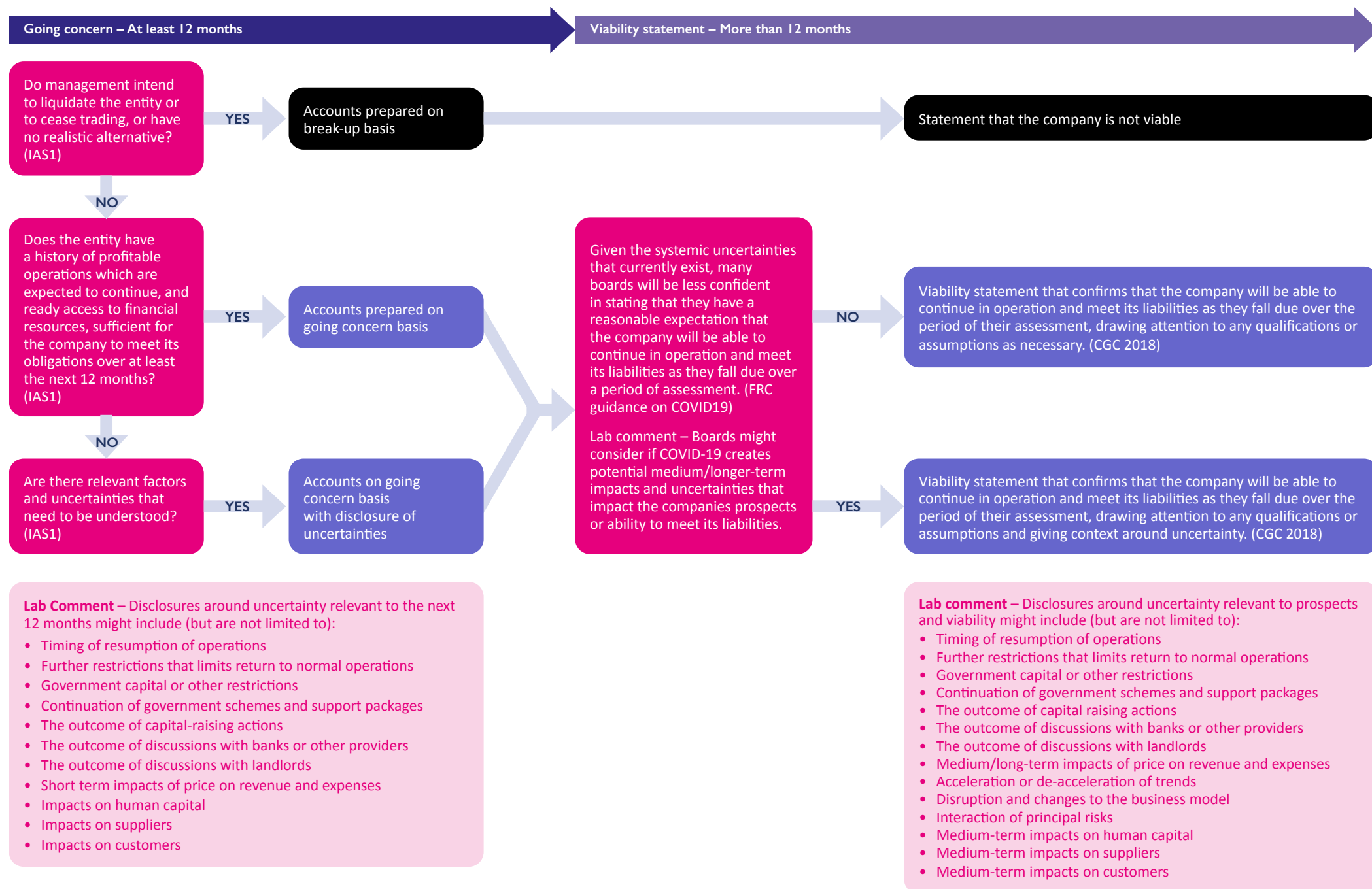
- The degree of uncertainty associated with the outcome of an event or condition increases significantly the further into the future an event or condition or the outcome occurs. For that reason, most financial reporting frameworks require an explicit management assessment specifying the minimum period for which management is required to take into account all available information.
- The size and complexity of the entity, including the nature and condition of its business and the degree to which it is affected by external factors affect the judgment regarding the outcome of events or conditions.
- Any judgment about the future is based on information available at the time at which the judgment is made. Subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made.

Governance code

The UK Corporate Governance Code

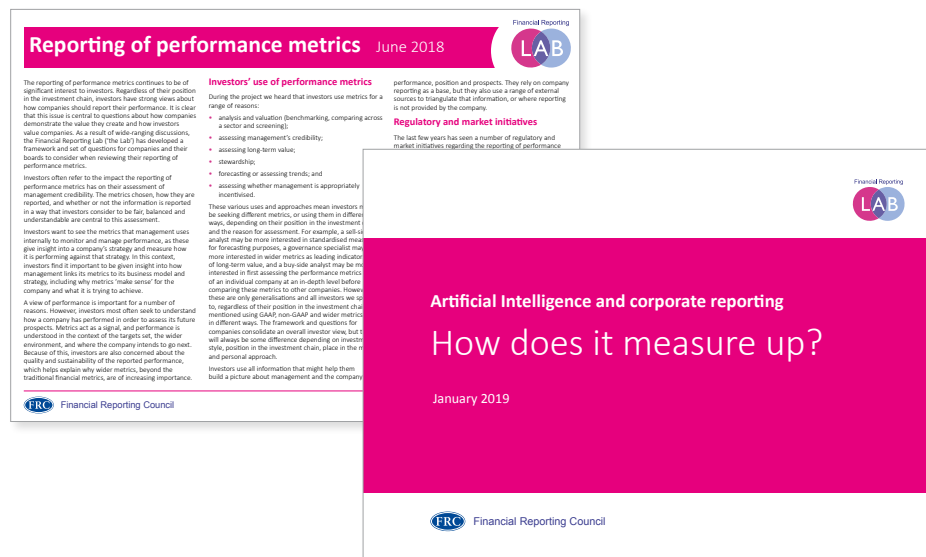
30. In annual and half-yearly financial statements, the board should state whether it considers it appropriate to adopt the going concern basis of accounting in preparing them, and identify any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

31. Taking account of the company's current position and principal risks, the board should explain in the annual report how it has assessed the prospects of the company, over what period it has done so and why it considers that period to be appropriate. The board should state whether it has a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary.



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