

Coronavirus Advice for Business – 5 November 2020

HOW TO APPROACH BANKS

Most banks are maintaining that it is business as usual, as far as possible, and that they are here to support their customers throughout these unprecedented times. Several of the major British banks have set-up dedicated Covid-19 helplines for their customers to call for guidance and information. Business owners should look to take advantage of all the support available to them and take the opportunity to speak to their lenders about concerns they have.

Proactive, regular communication with lenders is recommended. If you are predicting a down-turn in trade or your cash-flow projections reveal a potential liquidity issue in the next couple of months, it is best to speak to your bank as soon as possible to discuss the potential impact on your business. The quicker you raise any concerns, the better chance you might have to get the flexibility that your business might need over the coming months. It may also afford you more time to discuss a range of options and solutions.

Banks and mortgage lenders have also voluntarily agreed to offer customers three month-payment holidays. Businesses should look to take advantage of this where it is felt their business will benefit, therefore discuss this with your bank at the earliest opportunity.

Keep in touch with your bank as much as possible over the next few months and talk to us if you need a sounding board to discuss your lending and cash-flow needs, or to assist with producing any information requested from your bank. The banks, together with the Government and your advisers are here to help whilst we're all in this together.

CAPITAL EXPENDITURE DEFERRAL

In a time of uncertainty any capital expenditure needs to be assessed to determine if it is either essential for the continued running of the business or will generate significant new cash inflows.

It isn't advisable for a business to use available cash or overdraft to fund capital expenditure as this will deplete the working capital and potentially make it less resilient.

There are many sources of finance for capital expenditure such as hire purchase and leasing which can match the expenditure more in line with the useful life of the particular asset, resulting in less pressure on cashflow and working capital.

Capital expenditure relating to your computer system is potentially one area where expenditure cannot easily be deferred, if for example staff are now working from home the robustness of your system could be even more critical. Replacing in-house servers with a cloud-based subscription alternative might now be a more cost-effective alternative to consider. Another way of deferring expenditure in replacing computer servers at the end of their lives is to explore whether extended warranties can be purchased, and servers instead replaced on a one by one basis.

MORTGAGE AND LOAN HOLIDAYS/ DEFERRING LEASE OR RENTAL PAYMENTS

In recognition of the fact that the challenges faced by businesses as a result of Covid-19 are likely to quite quickly trickle down to staff and the general public, the government has announced that mortgage lenders will support individuals that are experiencing financial difficulties as a result of Covid-19 by providing mortgage payment holidays of up to three months. For individuals needing this support, the mortgage provider should be the first point of contact.

The mortgage holiday support is available for both homeowners and investment property owners.

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In addition to the government led loan repayment holiday initiative, it is encouraging to see that a number of lenders are also starting to offer loan interest repayment holidays of up to six months. This initiative is expected to be extended by the lenders, especially for personal loans and for commercial loans by negotiation.

APPROACHING LANDLORDS FOR DEFERRED PAYMENTS

We recommend that you ensure that you know the key dates and terms of your property leases. If you are approaching a break clause you are likely to be in a stronger position when negotiating with the landlord about rental payments. Some leases contain complex and onerous dilapidation provisions, as well as very specific requirements in order to make a notice under the break clause effective, so professional property advice is recommended.

Identify any surplus property you occupy on short term arrangements so that you can consider vacating them saving unnecessary costs. For example, are you storing obsolete stock or old paperwork in off-site warehouses? Do you really need to, or could you relocate these to your main premises (even in temporary containers in your carpark) or decide to destroy?

If your staff are now working from home to some extent, then some initial thought could be given to your requirements for space in the future. If working from home is successful and becomes the expected norm for many staff how much space will you need in the future?

Once the above points have been considered it is advisable to approach your landlords at the earliest opportunity in order to negotiate deferred payments. Banks have pledged to support landlords with mortgage and loan payment holidays so the sooner you approach your landlords the more likely it is that they can make suitable arrangements with their bank and therefore be more agreeable to deferred rent payments.