

# Navigating the impact of Coronavirus

Grant Thornton UK LLP

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# Introduction

- Over the past two weeks, we have been supporting anxious management teams and supporting lenders with their considerations.
- Based on those live experiences and the concerns we observed, this presentation shares our practical insights and tips.
- We will cover practical observations on the Government support measures, tips on the HMRC measures, self-help steps for management, practical considerations on directors' duties and insights on the current discussions between lenders and corporates.
- We will have time for questions in each section of this presentation.
- You may also find it useful to visit our [coronavirus hub](#), which will have updates on the developments and provides further useful resources.

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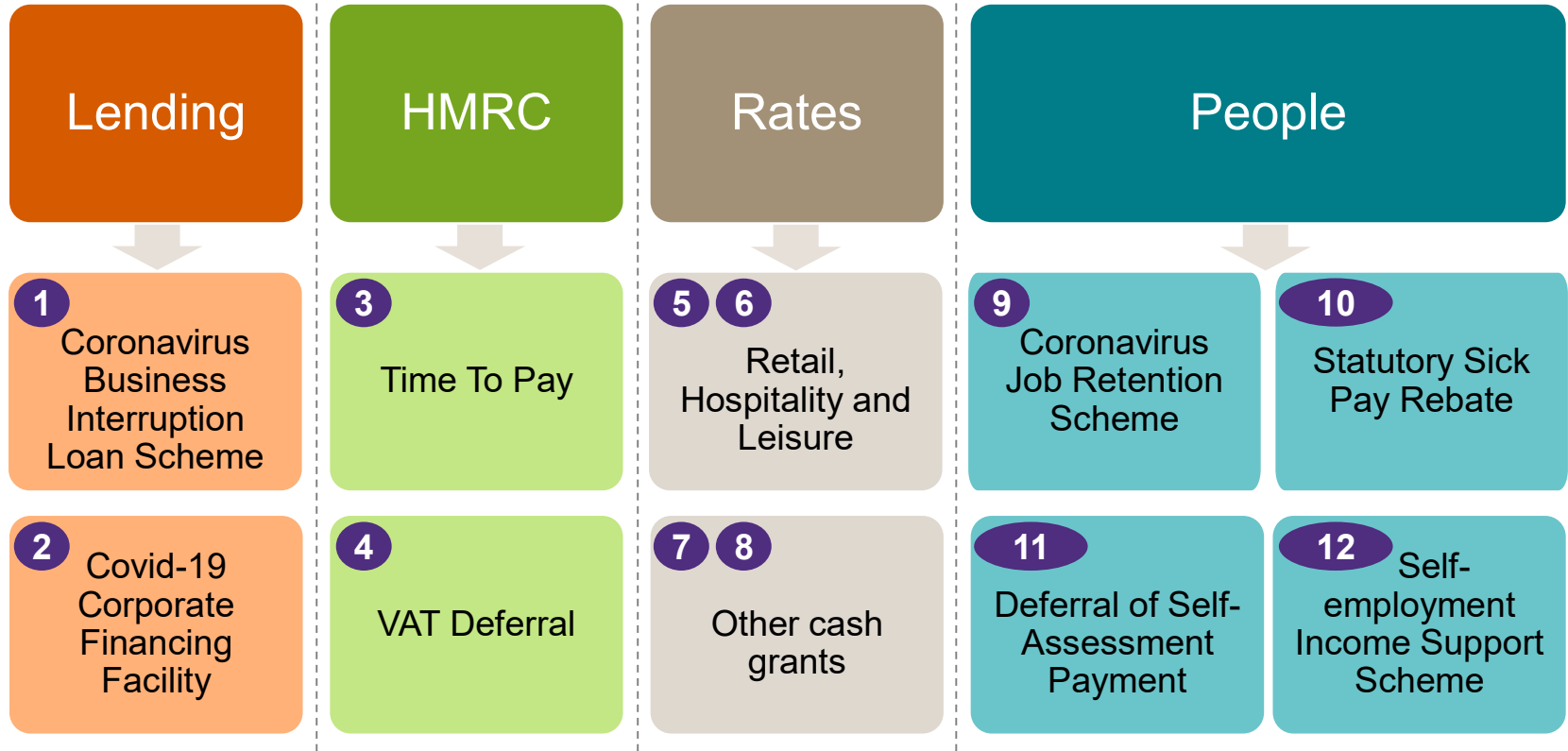
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# Agenda

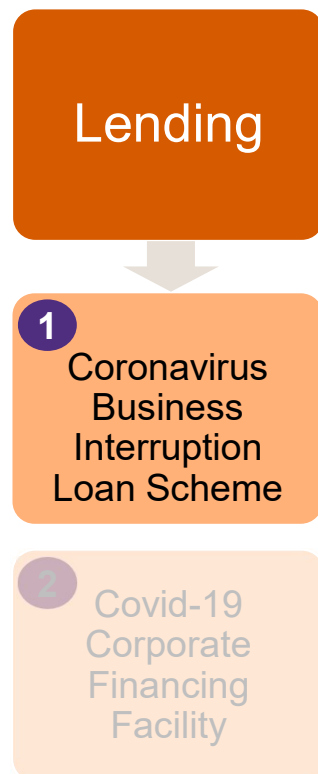
- i. Government coronavirus financial support**
- ii. Seven practical steps**
- iii. Directors' duties**
- iv. Financial reporting and audit impact**
- v. Lenders considerations**

# Government coronavirus financial support

## 12 areas of government-led support



# CBILS: Coronavirus Business Interruption Loan Scheme



## What is it?

The government, via the British Business Bank (BBB), will provide accredited lenders with a 80% guarantee on debt facilities of up to £5m. It includes overdrafts, invoice finance, term loans and asset finance

## Who is eligible?

1. Be UK-based in its business activity and proceeds used to support primarily trading in the UK
2. Annual revenue of no more than £45m
3. Have a borrowing proposal which the lender:
  - i. would consider viable, were it not for the COVID-19 pandemic
  - ii. believes will enable you to trade out of any short-term to medium-term difficulty

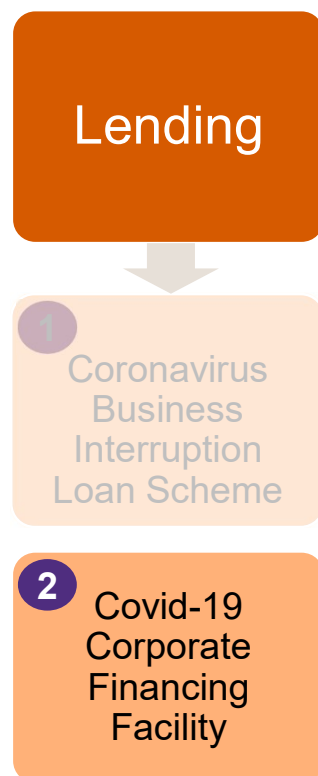
## Who is not eligible?

1. It appears that where an institutional investor controls >50% of the voting rights; it will not be eligible. We are seeking urgent confirmation on this point
2. Most financial services companies

## Insights:

1. The Government will make a Business Interruption Payment to cover the first 12 months of interest payments and any lender-levied charges – some lenders will provide a 6 month capital repayment holiday
2. The borrower remains 100% liable for the debt – the banks are instructed to take “all possible steps” to recover liabilities from other forms of security first before claiming under the Government guarantee
3. Many lenders are likely to require personal guarantees – for facilities below £250,000 lenders are encouraged to be flexible on this stipulation
4. The £45m revenue cap will apply to the group of companies rather than entity-by-entity
5. Approach your incumbent lender, not the BBB

# CCFF: Covid-19 Corporate Financing Facility



## What is it?

Her Majesty's Treasury and the Bank of England will purchase commercial paper (CP) issued by larger companies.

## Who is eligible?

1. Firms that can demonstrate they were in sound financial health prior to the shock; where available, a credit rating of A-3 / P-3 / F-3 / R3 (i.e. investment grade) from at least one of S&P, Moody's, Fitch and DBRS Morningstar as at 1 March 2020
2. Firms would normally be UK incorporated companies, including those with foreign-incorporated parents and with a genuine business in the UK; companies with significant employment in the UK; firms with their headquarters in the UK. Firms that generate significant revenues in the UK, serves a large number of customers in the UK or has a number of operating sites in the UK will be considered.

## Who is not eligible?

1. If firms have different ratings from different agencies and one of those is below investment grade
2. CP issued by issued by banks, building societies, insurance companies and other financial sector entities regulated by the BoE or FCA.
3. CP issued by leveraged investment vehicles or from companies within groups which are predominantly active in businesses subject to financial sector regulation

## Insights:

1. You do not need to have issued CP before to participate; you need to use a Issuing & Paying Agent (I&PA) bank
2. A firm will need to be rated consistently by its banks as investment grade in order to be deemed equivalent to having a public investment grade rating if it does not currently have a rating
3. Credit rating agencies can be approached to obtain a rating. Companies should note that they are doing so because they wish to use the CCFF
  - Special ratings which are for the Bank of England's use only and are 'at a point in time' can be obtained from the agencies and will take 2-3 weeks to obtain

# Lending for medium-sized and other larger companies



- Speech by Chancellor, Friday 20 March 2020:

“And I will announce further measures next week, on top of those the Governor and I have already taken to ensure that larger and medium sized companies can also access [credit]”

- Letter sent by Chancellor to aviation sector, Tuesday 24 March:

“... the government is prepared to enter negotiations with individual companies seeking bespoke support as a last resort, having exhausted other options.... However, further taxpayer support would only be possible if all commercial avenues have been fully explored, including raising further capital from existing investors and discussing arrangements with financial stakeholders...”

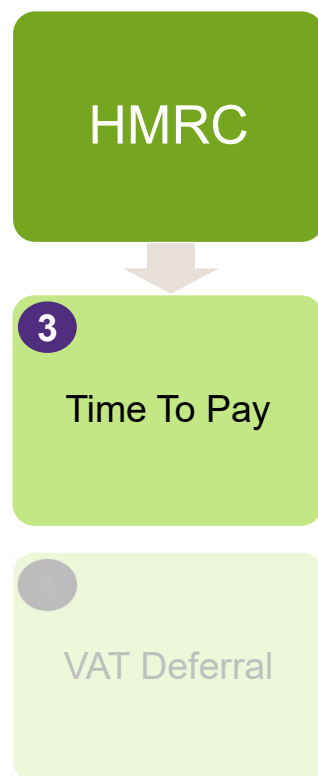
- Letter sent by Chancellor, Bank of England and FCA to major UK banks, Wednesday 25 March:

“...the benefits of the measures... this will require a willingness to maintain and extend lending... we must ensure that firms whose business models were viable before this crisis remain available once it is over. This includes firms not covered by CBILS or CCFF”.

- Letter sent by PRA to major UK banks, Thursday 26 March:

“lenders... are urged to consider carefully their responses to potential breaches of covenants [arising from Covid-19]. Where those uncertainties are of a general nature or are firm-specific but unrelated to the solvency or liquidity of the borrower, we would expect lenders to consider the need to treat them differently compared to uncertainties that arise because of borrower specific issues and in doing so consider waiving the resultant covenant breach”.

# HMRC: Time to Pay



## What is it?

- Support with the deferral of tax debts or imminent tax liabilities
- Tax paid in instalments over a set period (typically between 3 and 12 months)
- Call centre 0800 024 1222
- 2,000 staff but waiting times may be significant

## Who is eligible?

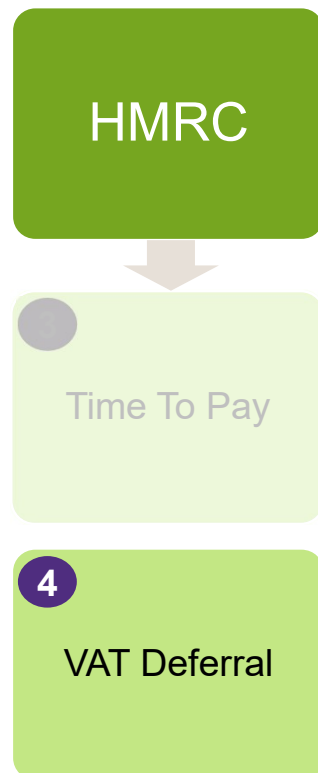
- All UK taxpayers – agreed on a case by case basis

## Insights

- How does the proposed Time To Pay request fit into the wider business strategy, plans for addressing liquidity challenges and cashflow forecasting?
- Do the forecasts support the proposed schedule of payments – is it achievable?
- Initial short term deferral may be possible, but what is the longer term plan for agreeing a schedule of payments?
- Be mindful of a future tightening of HMRC's approach – TTP should not become part of the 'normal' business cycle



# HMRC: VAT Deferral



## What is it?

- UK VAT registered businesses with VAT payments due between 20 March 2020 and 30 June can choose to either
  - defer the VAT payment to 31 March 2021 or
  - pay the VAT as normal
- HMRC will not charge interest or penalties on amounts deferred

## Who is eligible?

- All VAT-registered UK businesses

## Insights

- It is automatic with no applications required
- VAT returns must continue to be filed on time
- VAT refunds and reclaims will be paid by HMRC as normal
- Customers who normally pay by direct debit should cancel their direct debit with their bank if they are unable to pay
- VAT payments due after 30 June should be paid as normal (subject to further announcements from HMRC or the businesses seeking a Time To Pay arrangement)

# Rates: Retail, Hospitality and Leisure



## What is it?

- Businesses in the retail, hospitality and leisure sectors in England will not have to pay business rates for the 2020-21 tax year

## Who is eligible?

- Businesses based in England
- In the retail, hospitality and/or leisure sector
- Occupied properties that are used wholly or mainly:
  - as shops, restaurants, cafes, drinking establishments, cinemas, live music venues
  - for assembly and leisure
  - as hotels, guest and boarding premises and self-catering accommodation

## Insights

- Local authorities will apply the business rates holiday to bill

# Rates: Cash Grant for Retail, Hospitality and Leisure



## What is it?

- Businesses in retail, hospitality and leisure sectors may be entitled to cash grants per property, depending on rateable value of the property
- Rateable value up to £15,000 - cash grant of £10,000
- Rateable value over £15,000 and less than £51,000 - cash grant of £25,000

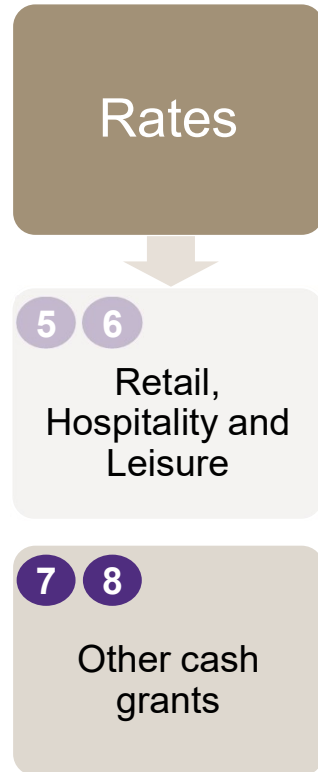
## Who is eligible?

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  - as hotels, guest and boarding premises and self-catering accommodation

## Insights

- Companies do not need to take action; local authorities will write to businesses which are eligible
- Businesses that are not ratepayers are not eligible

# Rates: Small Business Grant Funding and Business Rates Holiday for Nurseries



## What is it?

- The Government is providing additional funding for Local Authorities to support small businesses that already pay little or no business rates because of small business rate relief (SBRR), rural rate relief (RRR) and tapered relief
- This will provide a one-off grant of £10,000 to eligible businesses

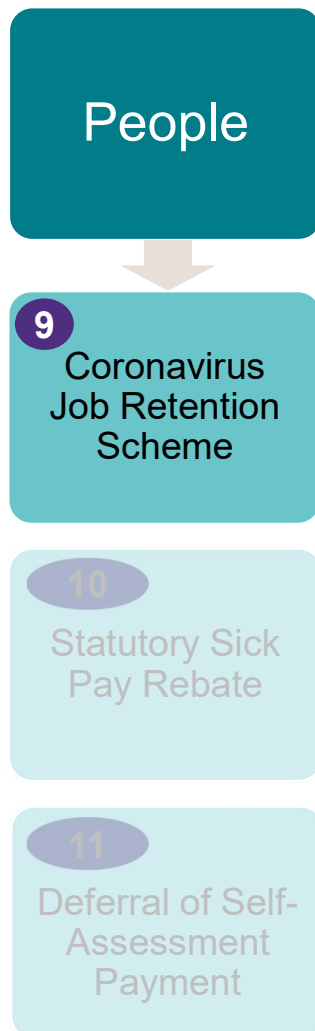
## Who is eligible?

- Businesses based in England and occupying property
- Small businesses who already receive SBRR and/or RRR

## Insights

- Companies do not need to take action; local authorities will write to businesses who are eligible
- Business Rates Holiday for Nurseries: most nurseries in England do not have to pay business rates for the 2020-21 tax year
- Businesses that are not ratepayers are not eligible

# CJRS: Coronavirus Job Retention Scheme



## What is it?

- Support for employers to continue paying part of their employees' salary for those that would otherwise have been laid off
- Applies to employees who have been asked to stop working, but who are being kept on the payroll; described as 'furloughed workers'
- HMRC will reimburse 80% of their wages, up to £2,500 per month plus employer's NIC and minimum auto-enrolment employer pension contributions
- Scheme available for an initial period of 3 months, but may be extended

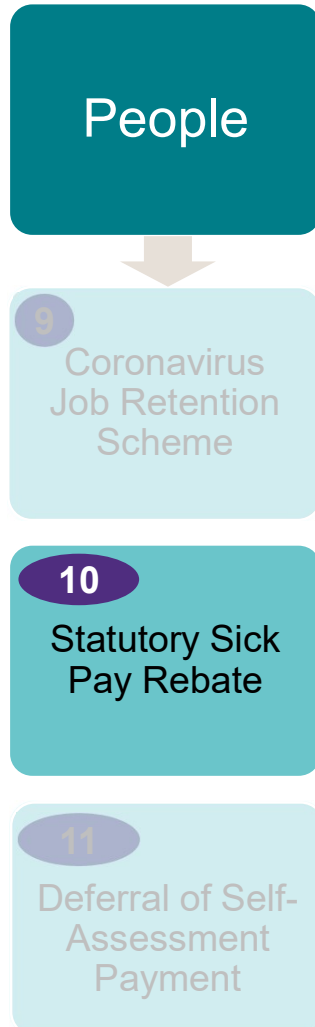
## Who is eligible?

- Employers with a PAYE scheme, including public sector, Local Authorities and charities
- Employee must have been on payroll on 28 February 2020
- Employee must not carry out any duties for the employer while furloughed

## Insights

- Companies must designate affected employees as furloughed and notify them of this change; employees remain subject to existing employment law
- The furlough period is for a minimum of three weeks and claims are made through a new online portal; further details awaited

# Statutory Sick Pay Rebate



## What is it?

- SMEs will be able to reclaim Statutory Sick Pay (SSP) paid for staff sickness absence due to coronavirus
- This refund will cover up to 2 weeks' SSP per eligible employee who has been off work because of coronavirus

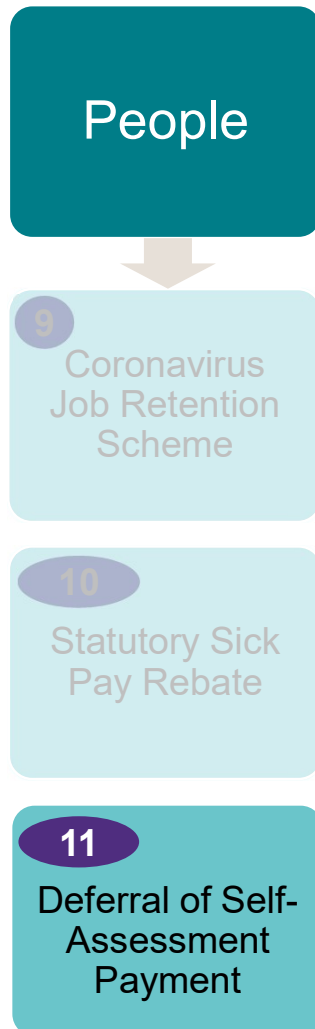
## Who is eligible?

- UK based businesses
- An SME and employs fewer than 250 employees as of 28 February 2020

## Insights

- The Government will work with employers over the coming months to set up the repayment mechanism

# Deferral of Self-Assessment Payment



## What is it?

- The Self- Assessment payment on account, that is ordinarily due to be paid to HMRC by 31 July 2020, may now be deferred until January 2021
- The deferment is optional and any persons still able to pay their second self-assessment payment on account on 31 July 2020 should still do so

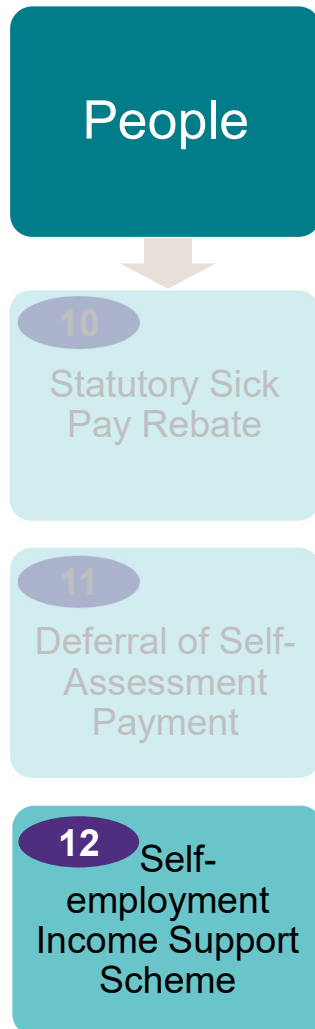
## Who is eligible?

- If you are due to pay a self-assessment payment on account on 31 July 2020 then you are eligible for the deferment

## Insights

- This is automatic with no applications required
- No penalties or interest for late payment will be charged if you defer payment of your July 2020 payment on account until January 2021
- HMRC have also scaled up Time to Pay access to individuals (as well as companies)

# Self-employment Income Support Scheme



## What is it?

- Similar to the job retention scheme, but for the self-employed, the aim is to support those who have lost trade due to covid-19
- A taxable grant will be paid to a self-employed individual worth 80% of their average profits over the past three tax years, subject to a monthly cap of £2,500, for the next three months

## Who is eligible?

- Individuals who are self-employed or a member of a trading partnership
- Trading profits must be less than £50,000 and more than half of the individual's income must come from self-employment

## Insights

- No action is required yet, HMRC is going to invite individuals to apply
- Those who may be eligible but have not yet filed their 2018-19 tax return (due by 31 January 2020) must do so by 23 April 2020, if they do not, they will not be eligible
- The grant is for a period of three months and will be paid in a lump sum, the first payments are not expected to be made until June 2020



## Seven practical steps

### 1 Short-term cash forecasting

- Receipts and payments
- Daily basis

### 2 Stress-testing and self-help

- Extrapolate current run-rates and consider range of scenarios
- Include mitigating actions and self-help measures

### 3 Compliance with docs

- Representations and warranties
- Covenants and reporting requirements; additional debt baskets

### 4 Engagement with lenders

- Never too early to approach; provide visibility
- Proactive engagement and engendering confidence

### 5 New capital providers

- New money from third-parties available but may take longer
- Pricing and diligence considerations

### 6 Working capital facilities

- RCF roll-overs
- ABL eligibility and borrowing base

### 7 Temporary finance options

- Tax and revenue authorities
- Asset-specific finance

# Director's duties – impact of new reforms to insolvency laws

## Reforms proposed

### Temporary suspension of wrongful trading provisions

- Removes threat of personal liability during the pandemic
- Retrospectively applied from 1 March 2020 for 3 months

- Allows directors to continue to trade during pandemic
- Liability for fraudulent trading and director disqualification remains

- No further details at present
- Changes to be implemented at “earliest opportunity”

### New moratorium for debtor-led restructuring plan (a UK version of Chapter 11 *Lite*)

- A short moratorium period (outside of insolvency)
- Debtor retains control while pursuing restructuring plan with its creditors

- Creditors (e.g. suppliers) will not be able to take enforcement action
- “Cram down” of dissenting creditors across different classes (with 75% consent)

## Director's duties – establish appropriate protocols

### Information and advice

- Regular review of liquidity and solvency position
- Up to date financial information and assessment of business operations
- Independent legal and professional advice
- Scenario planning and appropriate stress-tested financial forecasts

### Board meetings

- Have regular discussions, calls, meetings and document discussions
- Ensure non-executive board members are involved and updated
- Contingency plans for impact on staff and the functioning of the Board
- Be mindful of conflicts of interest and shadow directorship

### Creditors position

- Continually mindful of impact of actions on creditors position
- Remember that conduct will be judged with benefit of hindsight

## Director's duties – incurring credit and making payments

### Consideration of transactions

- Need to consider each transaction carefully
- Only incur credit that can be repaid
- Consider whether payments to creditors are essential in nature and are critical to maximising outcome of creditors as a whole

### Customer deposits

- Consider implications of taking customer deposits and payments in advance

### Creditors position

- Continually mindful of impact of actions on creditors position
- Avoid preferring one creditor group over another. Transactions could be challenged at a later date
- Careful documentation of decisions being made

## Director's duties – maximising outcome for creditors

### Outcome consideration

- Consider direction of travel and likely end outcome
- Consider whether an insolvent outcome is a probable rather than a possible scenario
- Aim is to achieve best outcome for creditors as a whole, including employees

### Contingency planning and insolvency advice

- Consider insolvency contingency planning and appropriate insolvency advice
- Ensure adequate control and security over assets, including physical security and insurance

### Insolvency protection

- A rash move to terminate operations may not necessarily achieve best outcome for creditors
- New moratorium rules and debtor-led restructuring plan
- Temporary suspension of wrongful trading provisions for 3 months

*The above does not constitute legal advice and we would recommend that directors take independent legal advice to cover their specific circumstances*

# Financial reporting and audit impact

## Going concern

- Management consider potential impact of COVID 19 and measures taken to control it including Government and local bank action/ impact on covenants
- Material uncertainty over Going Concern – significant increase
- Management disclosures on COVID 19

## Reporting timetable

- Limited company: 9 months; a 3 month extension is now permitted if Covid-19 related; companies need to apply
- Listed company, main market: 4 months – now extended by an additional 2 months
- FCA – *“we would urge all those companies that feel it appropriate to utilise the additional 2 months to do so. We urge market participants not to draw undue adverse inferences when companies make use of the extra time”*
- Listed company, AIM market: 6 months, now extended to 9 months (financial year ends 30 Sep 19 – 30 June 20)

## Audit opinions

- Limitation on scope/sufficient appropriate audit evidence
- Stock counts, overseas reporting, access to audit evidence
- Clients ability to work remotely/availability

# Lender considerations

