

Corona Virus

Financial matters – Update 6th April 2020

We were anticipating a big announcement on the Business Loan Scheme on Friday but in reality the changes were already announced and were quite small. Full details of the scheme and our experience to date follow later in the Newsletter.

National Minimum Wage:

Despite requests for the increase to be delayed the increases were introduced. The new rates apply from 1st April 2020. The main new rate for staff aged 25 and over is up from £8.21 to £8.70. You will need to check if any staff are affected.

However staff on Furlough are not affected by this increase and you do not have to increase the Furlough payment which is based on past wage levels. As staff return to work you will need to review their wage rate to ensure it complies.

Grants:

We have had a few clients query when they will have to repay any grants received. These relate to grants being issued by the local councils to small business and retail, hospitality and leisure sites of between £10,000 and £25,000.

These grants are not repayable. However they are taxable income of the business and will have to be included in accounts.

We have had our first client receive their grant 72 hours after submitting their claim. Each Council is different so go to your local council website for info. If you need any additional information or help on eligibility then please contact us

Furlough Scheme:

Still the biggest area of questions but most clients have now furloughed staff where necessary as they try to hibernate their businesses.

A few points:

You will only get Furlough money back from HMRC if your staff have been Furloughed for a minimum of three **consecutive** weeks. Therefore if you were late into furloughing your staff you may have to delay bringing them back to claim money back.

The Furlough dates are between when the staff member stops and start work. This may not be the same date as the decision was made. Please keep records in case of enquiry by HMRC

Staff who resigned in March can ask for their jobs back and that is permitted. However it is up to the employer if they wish to take them back. If they do then full employment rights return as if there had been no resignation (including future claims to redundancy etc).

Company Directors are now mentioned specifically together with agency workers and staff paid through umbrella companies. However Furlough can only be claimed on payments previously paid through PAYE and if there no work and the person is laid off. The guidance states that the Furlough process should be documented and as be for a minimum of 3 weeks.

Guidance is now given for company directors about working which is :

Where furloughed directors need to carry out particular duties to fulfil the statutory obligations they owe to their company, they may do so provided they do no more than would reasonably be judged necessary for that purpose, for instance, *they should not do work of a kind they would carry out in normal circumstances to generate commercial revenue or provides services to or on behalf of their company.*

Not overly helpful but gives an indication that any work done by directors cannot be fee earning and should be de-minimus.

Training whilst on Furlough: As lockdown continues staff on Furlough are permitted to undertake training without it affecting the claim from HMRC. We therefore recommend that you speak to staff about additional training needs and online resources available to them. Brushing up on a few skills will keep some staff in touch. The government are encouraging staff to undertake training during Furlough.

Loneliness: Staff placed in Furlough are on Leave of Absence and you might think of it as a holiday for them. However there are restrictions on going out and there is only so much daytime TV that can be watched. In addition your staff may need reassurance that you are still there and we recommend a regular update goes to all staff. We have also seen Zoom video used to advantage to keep the social side of work with staff having a weekly chat about non work matters.

Business Interruption Loan Scheme:

The key change announced was that no Personal Guarantees (PG'S) can be asked on loans up to £250,000.

As each bank is operating the scheme as the "gatekeeper" it's not easy to give guidance on what will be required however if you are planning to apply then the following might be useful:

The business must be a viable. Expect to be asked for the last 3 years accounts which show the business making a cash surplus after owner's dividends taken and repayment of existing loans. (EBITDA less tax and dividends less loan repayments on structured finance)

The balance sheet must be positive. A negative balance sheet indicates past losses (even if many years ago) and they seem to be reluctant to progress a claim if you have a negative P&L account.

They expect a 12m cashflow forecast which they will review and critique.

They expect you to have taken action to stop payments going out including delaying HMRC payments, deferring rent, and putting off suppliers. They see the loan as last resort finance.

They will look at your past banking record and review if you have breached limits in the past indicating a "problem" customer

They will almost certainly take out a credit check on the company to see what score you have. If low then you will have problems.

The above process will take the banks a while to get through so don't expect an answer back quickly. It's important however to give the bank all the information to make the decision which is:

How much you want to borrow

What the money is for

Loan repayment period

Historic accounts

Management accounts

Business plan – we recommend lots of basic info given here to help you manager understand the business better.

Cashflow forecast – this is probably the hardest document as we don't know when and how we going to come out of lockdown. Be fair in your assumptions and state what they are and they can be varied if required in the future.

The scheme has the updated guidance from today but has been backdated so submissions already made do not need to be resubmitted unless already rejected.

The scheme is not restricted to loans but should be available through :

- Loans
- Overdrafts
- Asset finance
- Invoice Finance

However not every lender will be able to provide every type of finance listed.

If you need any help or documentation for your application please contact us.

If you don't need the loan yet but think you will then we suggest you start drawing up the documents needed so that you are able to apply in a timely manner with all documents needed.

Action:

Continue to monitor your weekly cashflow

Check with your local authority if you are entitled to a grant in respect of your premises

Check the position on furloughed staff and they have all confirmed acceptance. Keep a record of the date they stopped working

Check all tax bills are not paid and stop any DDR's for VAT etc

If you plan to apply for a bank loan then please check with us about your most recent accounts to see if you need more up to date figures for the bank.

We appreciate these are difficult times and are here to support you as much as possible.

6th April 2020

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