TOUGHER TIMES ARE COMING - ARE YOU PREPARED?

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THERE IS NO ESCAPING THE DIFFICULT POSITION THE ECONOMY IS IN, AND HOW PRECARIOUS MANY BUSINESSES ARE RIGHT NOW.

Whilst we do believe a bounce back may be quicker than from a 'normal' recession (i.e. those driven by economic factors rather than a pandemic), there will be at least 2 or 3 years of challenge for us all.

So here are some quick bullet points on what business should be thinking about. No fluff, just direct comments for you to decide what action you should take.

- Part time furlough has started. This is great for many employers that are uncertain of demand levels but don't want to pick some employees in preference to others. The tourism and hospitality sectors will really benefit from being able to flex hours as needed knowing the government is topping up most of the rest. If you have people still on furlough, develop your return to work plan, and consider part-time options.
- Some clients are already telling us that a few employees are reluctant to return from furlough. That may be genuine concerns about health and safety, but also perhaps an element of having had long enough to create new work habits that are now harder to break. For some it may simply be the desire to keep getting paid 80% of their pay for nothing. Regardless of the cause of their reluctance, it is important for the employer to control the situation. Yes you should try to accommodate reasonable requests and concerns, but you must also consider the impact on all the other employees that are working hard to get businesses working as before.
- Employers will need to contribute to the NIC and pension costs for furloughed employees in August, then 10% and 20% of costs in September and October. This has already prompted many large employers to start redundancies now so that the government pays most of the notice period whilst they are on furlough. If you have not done a thorough review of your people needs, and considered whether you will need to make some redundant, do it now and use the furlough period to your advantage.
- Most analysts are predicting a surge in unemployment by the time furlough finishes. That may affect some sectors more than others, such as retail, tourism and hospitality, but high unemployment will affect us all in one way or another. An extra 2m unemployed will be 2m people spending less money, which will ultimately impact on most sectors. Do your financial plans consider whether your customer base will be directly or indirectly affected by large scale redundancies?
- Many businesses have taken advantage of being able to defer costs. That may be the automatic deferral of VAT, other taxes on 'time to pay' arrangements, or loan repayment holidays. Some may have borrowed money on CBILS or Bounce Back loans, which will see repayments and interest starting in 12 months' time. The key point is to make sure you plan ahead for when all these costs kick in again. So do a cash flow that runs until all deferred costs start, and see what business activity you will need to cover ongoing and all catch up costs.
- The most critical time in most recovery periods is the normal quarter days after recovery starts, when rent or loan payments coincide with normal bills. These will be September 29, December 25, March 25 and June 24. In this context we can add in the deferred bills and plan these critical dates. There are two issues here. Firstly, you must be able to get through those pinch points for your own business. Secondly, you need to be vigilant to whether your customers will have similar pinch points in their businesses that may mean they cannot pay you.
- For many years we have been advising clients to protect their wealth with more complex business structures. That could be as simple as turning a partnership or sole trader into a limited company, or adding a holding company above the existing trading business. For some businesses this may also include splitting different activities into individual companies to protect each one. The objective is to separate assets and value from financial and commercial risk. A hotel business might own the property in a holding company but run it through a trading subsidiary, and if needed could close the trading business with little or no impact on the property assets. Of course Coronavirus has really brought this issue home to many businesses, sadly too late for some. So if you don't have a business structure designed to protect assets and value, consider it right now.

This update is not intended to scare monger, but to make the point as clearly as possible, that the economic impact of Covid-19 has not yet been felt. All the government support has delayed the impact we would normally have already seen at this point in a 'normal' recession, but it is coming.

The key is to make sure you have considered these points, worked out how they impact on you and your business, and then get the important stuff done.

If you need help with any of this, call us.

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