Milsted Langdon advice for businesses facing a COVID-19 cashflow crisis

Are you facing a COVID-19 cashflow crisis? If so, you are not alone and you may have more options than you think, ***writes Simon Denton, Tax Partner, at Milsted Langdon***.

Few businesses have sufficient cash reserves to be able to survive an extended period during which their cashflows are disrupted. As business-owners around the world are starting to discover, COVID-19 is beginning to give rise to just such disruption.

In some cases, businesses are seeing a catastrophic drop in income arising from a lack of confidence amongst consumers or simply from the imposition of government travel restrictions. Equally, disruption to supply chains can bring a business to its knees if essential supplies simply become unavailable. In a worst-case scenario, a business can find itself facing a perfect storm with both reduced customer numbers and restricted supplies.

In those circumstances it might well not be very long before the business finds that debts start to mount up and there isn't sufficient cash available to meet the bills that have fallen due for payment.

During the crisis, business-owners will be totally focussed on survival from day to day but, if as is expected, the effects of the coronavirus start to abate after time, it is likely to leave in its wake a trail of companies with unpaid debts. What those businesses are likely to need are time to pay arrangements with their creditors.

In many cases, suppliers will no doubt want to be understanding and to offer flexible payment terms. However, some might well themselves be facing cash flow pressures which may restrict how much leeway they feel able to offer.

Juggling payments can be a hugely stressful and time-consuming task, which can distract from other pressing business decisions. Consequently, many companies find themselves at greatest risk of failure, not at the peak of a crisis but soon afterwards as they embark on the road to recovery.

The Government has announced a raft of measures in an attempt to help small and medium sized businesses during this period. For businesses in the leisure, hospitality and retail sectors, which the government has identified as being most at risk, it will be possible to obtain a rates holiday of 12 months. Furthermore, they will be entitled to apply for a grant of £25,000 if their rateable value is less than £51,000.

However, it is clear that many other businesses will be in need of help. For them there is also a Business Interruption Loan Scheme which will allow businesses to borrow up to £5million with no interest in the first six months.

This could be a much-needed lifeline but, at the moment, the Treasury has yet to publish the details as to how businesses can apply for this help in practice or what the eligibility requirements might be. We do know that, as with previous government Loan Guarantee schemes, businesses will apply for the loan through their existing banks who will then be granted a guarantee from the Treasury. The Banks are currently designing this new product and hope to get them approved and available for businesses next week.

It is also worth noting that HMRC have set up a helpline to support businesses and the self-employed who are concerned about not being able to pay their tax due to COVID-19. More information can be found here.

The worry is that, if these measures are not flexible enough or come too late, businesses will need to put alternative steps in place either as an alternative or to bridge the gap. It is in those circumstances that business-owners would be well advised to consider whether they might benefit from an Individual or Company Voluntary Arrangement (IVA or CVA).

These arrangements are formal "deals" whereby a business in distress puts repayment proposals to their creditors. The repayment plans might offer payment in full but can also often offer only partial repayment of debts with the balances being written off.

Creditors are given an opportunity to vote on whether to accept the proposals presented to them and one may wonder why any creditor would countenance agreeing to receiving less than the full amount it was owed or to being paid over several years.

The answer is that, such offers can be relatively attractive if the only alternative is for the business that is in debt to go bust, enter liquidation and for the creditors to receive nothing.

It is for that reason that the vast majority of voluntary arrangements are approved by creditors. They can sometimes mean the difference between the demise of a company and its survival and are ideally suited to businesses that are fundamentally sound, but which have suffered a short term shock to their cash flows.

The preparation of the proposal that is put to creditors and the negotiations which follow requires considerable skill and finesse.

As a firm, Milsted Langdon has a team of insolvency practitioners who between them have over 100 years' experience of helping companies and businesses to put forward voluntary arrangement proposals and have had considerable success in getting the proposals approved by creditors.

Importantly the voting process means that it is not necessary to get every creditor to agree to what has been proposed. As long as more than 75 per cent by value of those who vote, support what has been proposed, the proposal binds not only those that voted in favour but also those who voted against and those who often form the largest group, being those that did not vote at all.

If you your business has been adversely affected by COVID-19 or if you simply want to know what options you may have if the worst happens, please feel free to contact Milsted Langdon for a free consultation. www.milsted-langdon.co.uk