Update 9 1/4/2020

BWM Update:

Our working from home seems to be working well, fingers crossed! Phone calls to the office are being redirected to my mobile phone but clearly email is the preferred method of contact so your usual team member can ring back or reply as appropriate.

We applied for a postal redirection service to my home when the lockdown was announced, and a scanner has now arrived for me to use at home so I can distribute the mail that way. But again, the preferred method of sending documents is by email or our portal to your usual team members. But the point is that we are sorting out the available options.

Thinking forward:

HMG announcements have made it clear that this lockdown won't end by 30 April, and 31 May is looking highly suspect now, so we are advising clients to plan for a lockdown till at least end June, perhaps longer given suggestions that life won't get back to normal for 6 months – a very vague phrase!

So as discussed, in assessing your financial needs, before applying to the banks for support, you need to project on that basis, although it is hard to know what revenues might come in over that period. If we can assist in preparing management accounts and forecasts, do please get in touch.

I've reflected in earlier updates on the need to review all our businesses for efficiency etc, but the importance of this was born in on me by my son, who works in the field of medical research. He drew my attention to a research paper written in 2003 identifying the risk of a pandemic arising from viruses harboured by bats being transmitted to the human population. That paper presumably largely ignored, has proved correct, with various of the recent outbreaks coming from bats, this latest making it to humans via pangolins (see the YouTube link below). The worrying aspect is that bats harbour quite a number of such viruses, and presumably other animal species the same.

If interested in the research, let me know and I will forward a link.

So, building resilience against the risk of future lockdowns into all our business models, and personal lives, must be a given. But this will directly make all our businesses leaner and meaner so no downside. No business can safely assume it's business as normal once the lockdown has finished unless its exceptionally lucky. Paperless working in the cloud has to be a key way forward, and we are well placed to advise clients on the options for accounting software and related functions; there isn't a need to wait of course, if this is something you want to explore now, do get in touch. Increased use of working from home and so on will receive much more focus, reducing overhead costs with smart working etc.

We have been going off-piste where we think that this might be of interest and help in these incredibly difficult times. In that spirt, and I realise that this is going to be sensitive in that many of us will now know people who have succumbed to Covid-19, or are seriously ill, or are worried by the financial impact of the lockdown.

This video recording, made available on YouTube, is being used as a training resource in the NHS, and was published deliberately as part of a wider education effort. The lecturer has a serious CV in infection control, and this was produced for NHS training purposes and now seems to be circulating within at least parts of the NHS as a reliable information resource. It's about an hour long but I watched it through, some bits relevant only if you are in the NHS but otherwise generally pertinent. It is very informative, based on up to date research, and in a sense is oddly reassuring in the sense that it is authoritative rather than speculative, or outright lies as being promulgated on social media etc. It explains for instance why social distancing and hand washing really does work, and sets out simple steps to combat transmission.

https://youtu.be/S7JXJJgnLo4

Anyway, back to Covid updates, sorry it was bound to happen!

First let me reiterate that much of the information set out below is simply the latest updates and is liable to amendment at short notice. We have included material which is outside our expertise simply in an effort to assist in these unprecedented times. Given that, we can't take responsibility for any actions you may choose to make, or not make, as a result of this update.

Covid-19 Support for the Self Employed:

The latest initiative to be announced is the Self-employment Income Support Scheme (SEISS) to support self-employed individuals (including members of partnerships) who have lost income due to coronavirus (COVID-19). This scheme will allow you to claim a taxable grant worth 80% of your trading profits up to a maximum of £2,500 per month for the next 3 months and may be extended if needed.

You can apply if you:

- have submitted your Income Tax Self-Assessment tax return for the tax year 2018-19
- traded in the tax year 2019-20
- are trading when you apply, or would be except for COVID-19
- intend to continue to trade in the tax year 2020-21
- have lost trading/partnership trading profits due to COVID-19

Your self-employed trading profits must also be less than £50,000 and more than half of your income come from self-employment determined by at least one of the following conditions being met:

- having trading profits/partnership trading profits in 2018-19 of less than £50,000 and these profits constitute more than half of your total taxable income
- having average trading profits in 2016-17, 2017-18, and 2018-19 of less than £50,000 and these profits constitute more than half of your average taxable income in the same period
- If you started trading between 2016-19, HMRC will only use those years for which you filed a Self-Assessment tax return.
- f you have not submitted your Self-Assessment tax return for the tax year 2018-19 - you must do this by 23 April 2020.

HMRC will use the data on your 2018-19 return to identify those eligible and will risk assess any late returns filed before the 23 April 2020 deadline in the usual way.

You'll get a taxable grant which will be 80% of the average profits for the 3tax years to 5 April 2019 (where applicable).

You'll be paid the grant directly into your bank account, in one instalment. You can't apply for this scheme yet but HMRC will contact you if you are eligible for the scheme and will invite you to apply online.

The advice is that Individuals do not need to contact HMRC now and ask that you don't do so as that'll slow them down!

You will access this scheme only through GOV.UK. and so if someone texts, calls or emails claiming to be from HMRC, saying that you can claim financial help or are owed a tax refund, and asks you to click on a link or to give information such as your name, credit card or bank details, it is a scam.

After you've applied and HMRC has received your claim and you are eligible for the grant, they will contact you to tell you how much you will get and the payment details.

"**Small Business Grant Fund" & the "Retail, Hospitality and Leisure Grant"**

The Councils are administering these and links to claim these are all on their websites, so for example for Liverpool you apply for the grants, support schemes, loans and other available measures by visiting liverpool.gov.uk/covidbusiness

Small business grant fund:

You will be eligible to apply for a £10,000 grant if you have been receiving Small Business Rates Relief on 11th March 2020 with a rateable value must be £15,000 or less.

Payment of the small business grant fund must comply with EU law on State Aid subject to the 200,000 Euro limit over 3 years (or under the Temporary Framework where the de minimis threshold is met). Check the latest government guidance on GOV.UK.

Retail, hospitality and leisure grant:

If your retail, hospitality or leisure sector business has a rateable value:

- up to £15,000, you may qualify for a £10,000 grant
- between £15,000.01 and less than £51,000 per year, you may qualify for a £25,000 grant.

The expanded retail discount – the 100% reduction to your business rates for 2020/21 – must also apply to you.

Qualifying businesses include:

- shops
- cafes, restaurants, take-aways and drinking establishments
- cinemas, music venues and nightclubs
- petrol stations
- gyms, leisure and sports facilities
- estate agents and letting agents
- betting shops and bingo halls
- car show rooms
- hotels and guest houses

View the full list of qualifying businesses on GOV.UK.

The retail, hospitality and leisure grant is paid under the UK Covid 19 Temporary Framework Approved Scheme, which is subject to the 800,000 Euro limit over 3 years. Check the latest government guidance on GOV.UK.

You can apply online as above but if your business has multiple premises, you must submit an application for each one. The application must be completed by the Business Ratepayer so for a company or partnership, this would be a company director or one of the partners.

You will need to provide some business details, including your:

- Business Rates account number (from your latest bill)
- Business bank account information (payment will be made directly into your business bank account)

If you pay your Business Rates from the same business bank account, LCC can verify this. If not, you will need to email a photograph or scan of your most recent bank statement dated within the last three months. You must confirm that you are entitled to receive the grant funding when you apply.

Once you have completed the form Liverpool City Council will send you an email with the next steps to complete your application.

You will not qualify for either grant if your business was in administration or liquidation on 11th March 2020.

Job Retention Scheme (CJRS):

The details of this are becoming clearer and the link to the website is : coronavirus job retention scheme

All employers can benefit from the scheme, even owner-managed businesses. There are no conditions attached such as have been applied to the business interruption loans.

Owner-managed businesses can also make a claim from the CJRS, as they are effectively furloughing themselves on the understanding that they do no income generating work for their business but can continue to run the business from a statutory perspective, for example preparing their accounts and returns.

Do note though that HMRC reserve the right to investigate claims and cross-reference them to RTI data!

The following employers therefore qualify:

- Businesses
- Charities and not-for-profit organisations
- Parents employing nannies
- Public sector organisations, although the government expects that most of them will still have the majority of employees working in frontline services.

To reclaim a CJRS grant from HMRC, the employer has to designate those employees to be furloughed (essentially a period of paid leave when they cannot work) but their other terms and conditions of employment continue unless these have been varied too. Whilst furloughed staff can't do any work for the employer that furloughed them, they can undertake training, work for other employers, work on a self-employed basis or as a volunteer.

The guidance refers to employees (and occasionally workers) so this is taken to mean that the following are covered:

- Employees (including zero hours and fixed term) with a start date of 28 February or earlier, even if they were added to a March payroll retrospectively because they missed the February payroll cut-off date
- Apprentices
- Temps on PAYE at a recruitment agency

The following individuals will not be covered:

- Deemed employees – those subject to the off-payroll rules in the public sector. These individuals would have to claim based on the non-taxable salary extracted from their PSC.

- Workers engaged under a contract for services, ie sole traders being paid gross via an invoice. These individuals will have to claim under the self-employed support scheme.

A business may need to furlough all employees if it has effectively closed down, as in hospitality or non-food retail. However, it can choose to furlough a group of employees, whilst key workers continue to work, or to rotate groups between furloughing and working – this last point particular wasn't clear before.

The scheme was introduced on 1 March so changes to March payrolls can be made retrospectively to change employees' status to 'furloughed' and reinstate those who had already been made redundant due to COVID-19. However, the PAYE scheme must have been in existence for those employees on 28 February 2020.

The CJRS doesn't override employment law so the employer must mutually agree with the employee, ideally in writing as it's a contract change, that the employer is designating them as furloughed (there is no work for them due to COVID-19) and what the employer is planning to pay them whilst furloughed. Some businesses may choose to continue to pay full salary even though they can only reclaim 80% up to the cap. Other employers may only be able to pay 80% of regular salary or even less than that, until the CJRS grant arrives.

Employees can be furloughed for a minimum of three weeks at a time and for a maximum of three months from 1 March, subject to it being extended by the government. The individual could remain furloughed even if the CJRS is not extended, but then the employer would not have any grant funding to cover their wages.

The grant from the scheme will be the lower of £2,500 per month per employee or 80% of gross regular wages plus employer NIC on the grant figure plus 3% employer pension contributions on the grant figure using the qualifying earnings threshold. The apprenticeship levy can't be reclaimed.

When calculating claim values for directors of owner-managed companies you can only consider the salary that has been subject to PAYE, not any dividends paid to those directors, including by alphabet shares for example.

It is important to distinguish between the CJRS grant funding and normal payroll operations which continue, other than that employees won't necessarily be receiving their former contractual wages.

To decide how much to pay, employers will need to calculate how much the CJRS grant will cover. The £2,500 cap refers to *regular wages* as at 28 February, excluding bonuses, fees and commission (it's not clear if cash allowances and overtime should also be excluded). For an individual with variable pay ie 28 February was not an indicative week or month, their average earnings over 2019/20 or the period of employment during that year can be used.

The figure agreed with the employee to be paid in the period of furlough will treated as normal earnings, subject to all statutory and voluntary deductions, reported under RTI with the remittances paid over to HMRC by the normal deadline. What is paid through the payroll will not necessarily equal what can be reclaimed from HMRC.

A standalone portal is to be introduced, apparently around 21 April, to allow furlough grants to be reclaimed. The professional accountancy bodies have requested that tax agents be given access to this portal as well as employers.

As a bulk amount will be claimed for a group of employees you need to consider how this will be reconciled once it is paid into the company's bank account (it needs to be a UK bank account). It appears it will be a simplistic request just to identify the business, grant value, the number of employees, and the period of furlough.

Coronavirus Business Interruption Loan Scheme (CBILS):

As is becoming clearer, the CBIL scheme is complex, having been created at very short notice has issues we all need to be aware of. So, for example:

- CBILS differs substantially from lender to lender
- But so far, banks are refusing to rebank customers that would be new to them.
- They are not lending to businesses that they wouldn't have lent to before the Covid-19 crisis
- They are getting frivolous applications which don't lend credibility for an application for what is genuinely needed
- Decisions are being made quickly so the application has to be as right as can be in the circumstances, otherwise it may be rejected out of hand
- All lenders will require borrowers to be responsible for repayment of 100% of the loan facility – not just the 20% that is not guaranteed by the government and, where defaults occur, will follow their "standard commercial recovery processes" – CBILS is by no means a grant or "free money"
- Borrowers will be asked for a lot of financial information and they should engage fully with us as quickly as possible.
- A key point is that loans via CBILS are limited to
    - A maximum of 25% of 2019 turnover or
    - Twice the annual wage bill - whichever is greater.

Lenders have had to roll this out to local branches within days so there's been no training provided to the branch staff who are not surprisingly inundated so if you need the loan before the April payroll run, you need to get on with it.

We can help you by:

- Ensuring management income and cashflows for 2019 are accurate and reflect the strength of the business
- Providing a clear explanation for any "one-offs" that reduced income or profitability in 2019
- Ensuring the application clearly shows affordability "in a steady-state economy"

You should note that loss-making companies are unlikely to be able to access the scheme given the above and, from our experience to date, lenders are also being extremely careful with seasonal businesses and those in the hospitality sector – given the uncertainty over how long this will last and how quickly businesses can get back on their feet.

So we strongly suggest that borrowers start with their current provider of business finance as all lenders from what we can see to date are prioritising current borrowers – this is understandable if frustrating given the volume of applications they are seeing, their desire to support current customers and their knowledge of current customers payment behaviour and historic business strength.

Having said that, there are other options out there. In many cases, reviewing other finance alternatives would make economic sense and/or allow funds to be provided more quickly. But exorbitant rates may be charged – we've heard of clients being quoted up to 16%!

Lenders are obviously changing their credit criteria by the hour and we're keeping an eye on them daily. It's early days yet but, to date, we're seeing a roughly 50/50 between borrowers getting CBILS approvals and getting approvals via traditional lending sources.

It is in the borrower's best interests to provide a comprehensive pack of information so if an application is fully complete and has the required information it will get prioritised and not be subject to as much scrutiny as others – bank managers are only human and are keen to get as many viable CBILS applications over the line as possible.

So the basic information needed to be correct and complete:

- Account and reference details if already a business borrower with the bank
- Three years address history for each of the directors/partners applying for funding
- Personal details of all the partners and directors of the business (including their home addresses for the last three years)
- Ideally up-to-date asset and liability forms for each of the partners and directors
- Correct business details including company registration number and registered address
- Last two years filed accounts
- The most up-to-date management information you have
- A full schedule of finance and hire purchase commitments (including current balances, repayment commitment details and expiry dates)
- Agreement to permit credit checks

If you have both business and personal accounts with the bank you're applying to for the loan, you need to ensure that there are no discrepancies between what you state as your income on the CBILS application and what the bank sees coming into your personal account each month. Banks need to continue to be responsible lenders and will carry out "affordability checks" as always.

In terms of explaining the effect of coronavirus on the business we would suggest lenders will want the following:

- A brief update on the performance of the business prior to the onset of coronavirus
- Any internal information that is available showing the 12 months performance of the business prior to the impact of the coronavirus (ie management accounts, audited accounts for 2019)
- A clear explanation of the impact of coronavirus on your business
- A clear explanation as to how you will mitigate the impact of coronavirus on your business – remember the banks are looking to lend to companies that are viable... this is not a grant or free money from the government
- The set of forecasts which you have used to estimate your total cash requirement over the next 12 months and the amount of debt you are seeking
- Any key assumptions or risk factors which may impact the above - lenders will be expecting you to model for a six-month period of severe disruption
- The extent to which you've explored other areas of funding or government support

Finally, remember that lenders have been given strong guidance from the government that they should be looking to support business that would have been viable if not for the sudden onset of COVID-19. Lenders will be basing their credit views on the projected business performance in 2021 and 2022 compared to prior to the onset of the coronavirus and how the business is planning on dealing with the longer-term disruption.

Finally, it does seem that banks are stepping back from requiring PGs for loans up to £250k at least.

Commercial Insurance:

Most commercial insurance policies are unlikely to cover pandemics or unspecified notifiable diseases, such as COVID-19.

However, those businesses which have an insurance policy that covers government ordered closures and pandemics or government ordered closure and unspecified notifiable disease should be able to make a claim (subject to the terms and conditions of their policy). Insurance policies differ significantly, so businesses need to check the terms and conditions of their specific policy and contact their providers.

It's certain that insurers will be examining the small print carefully, and I am aware of at least one significant disputed claim heading to the Courts (assuming they are *open*!)

Notifiable diseases are certain infectious diseases that registered medical practitioners have a statutory duty to notify the 'proper officer' at their local council or local health protection team about when they come across a suspected case.

The government keeps an updated list of notifiable diseases and this now includes COVID-19. Many insurers use this list as triggers for the activation or exclusion of insurance cover.

The view seems to be that most businesses' commercial insurance policies (including denial of access) are unlikely to offer cover for COVID-19. Insurance policies differ significantly, so you do need to check.

Protection from Eviction (Commercial):

Commercial tenants who cannot pay their rent because of COVID-19 will be protected from eviction so no business will automatically forfeit their lease and be forced out of their premises if they miss a payment up until 30 June. There is the option for the government to extend this period if needed.

This is not a rental holiday. All commercial tenants will still be liable for the rent. Commercial tenants are protected from eviction if they are unable to pay rent.

All commercial tenants in England, Wales and Northern Ireland are eligible.

The change will come into force when the Coronavirus Bill receives Royal Assent. No action is required.

Business Improvement Districts (BIDs):

BIDs will be able to extend the maximum duration of their BID arrangements until 31 March 2021 by delaying BID ballots due to take place this year. This enables BIDs, and the local authorities who administer the ballot process, to concentrate on responding to the current emergency.

Businesses in Wales Support:

This matches the measures in England providing a much-needed boost for small businesses struggling to cope with the impact of the Coronavirus crisis.

The new package provides retail, leisure and hospitality businesses in Wales with a year-long business rates holiday.

A grant of £25,000 will also be offered for businesses in the same sector with a rateable value of between £12,001 and £51,000. It also provides a £10,000 grant to all businesses eligible for Small Business Rates Relief with a rateable value of £12,000 or less.

The Welsh Government has announced the Development Bank of Wales will be offering all its business customers a three-month capital repayment holiday to help them manage the financial fallout from the virus.

Deferral of Income Tax:

Deferral of self-assessment payments due on 31 July 2020 by six months to 31 January 2021 is to be extended to all taxpayers and not just the self-employed.

The reference to “self-employed” meant that this would not apply to those without self-employment income so buy-to-let landlords or other investment income would not have benefitted from this automatic deferral of their tax payment.

The guidance has been updated and now says “*You do not need to be self-employed to be eligible for the deferment*” so the deferment is now available to anyone with tax to pay under self-assessment. HMRC have also confirmed that, “*no penalties or interest for late payment will be charged if you defer payment until January 2021*” so there is no financial cost incurred when relying on this deferral.

However, if the deferred payment is not made by 31 January 2021, based on the current announcement, there is a risk that HMRC will reinstate the late payment interest that would otherwise be waived.

Working at Home:

Our friends at MSB kindly provided the attached working at home employment policy, and summary of the employment law issues. If you want contact details, please do get in touch with me or your usual relationship manager.

Tax Status for Working at Home:

HMRC issued a guidance notice for the tax position for equipment, services or supplies for employees are working from home due to Covid-19. Very briefly you could be affected if any of your employees are working from home due to coronavirus (COVID-19), either because your workplace has closed or they are following advice to self-isolate

- Furloughed workers who are eligible for the Coronavirus Job Retention Scheme are not affected.
- If you provide a mobile phone and SIM card without a restriction on private use, limited to one per employee, this is non-taxable.
- If your employee already pays for broadband, then no additional expenses can be claimed.
- If a broadband internet connection is needed to work from home and one was not already available, then the broadband fee can be reimbursed by you and is non-taxable. In this case, the broadband is provided for business and any private use must be limited.
- Laptops, tablets, computers, and office supplies mainly used for business purposes and not significant private use, these are non-taxable.

- Reimbursing expenses for office equipment your employee has bought is taxable and should be reported on your PAYE Settlement Agreements.
- Additional expenses like electricity, heating or broadband paid or reimbursed to your employees of up to £4 a week (£6 a week from 6 April 2020) is non-taxable for the additional household expenses incurred when your employee is working from home. If the claim is above this amount, then your employee will need to check with you beforehand to see if you will make these payments, and keep receipts
- A salary advance or loan to help your employee at a time of hardship counts as an employment-related loan but those with a value less than £10,000 in a tax year are non-taxable.
- If your employee needs to self-isolate but cannot do so in their own home, you can reimburse hotel expenses and subsistence costs, these are taxable.

Otherwise, broadly speaking, the usual rules apply.

Insolvency:

Clearly many businesses aren't going to survive this crisis despite all the Government initiatives, whether struggling Pre-Covid and this has proved the final straw, or proving particularly vulnerable to the lockdown, either because sales have been frustrated, or supply chain problems etc.

Taking on the fresh debt available may not appeal as it will have to be repaid, but as reported before the banks aren't automatically waving the cheque books – they need forecasts, management accounts etc. They aren't lending to businesses that were stressed pre-Covid-19 and may not now if concerned about the viability and solvency of the business as a direct consequence of COVID-19. Reflecting these concerns the UK government announced a further initiative on 28 March 2020 that it will introduce new legislation at the "*earliest opportunity*" to suspend wrongful trading laws retrospectively from 1 March 2020 for a period of 3 months or more to allow directors to continue to pay staff and suppliers without risk of personal liability should the business later become insolvent. This is a real risk with VAT, PAYE, rents etc all being deferred, kicking the problem of payment down the road.

The government has made clear however that "*all of the other checks and balances that help to ensure directors fulfil their duties properly will remain in force*", and as such it's more important than ever to keep a record of the decision making during this challenging time – not made any easier by meetings probably being virtual on Zoom or Teams – but minutes must be maintained.

The long overdue Restructuring Moratorium legislation will now be rushed through allowing companies to file documentation at Court to immediately fend off creditor pressure but the period of grace to put in place plans to resolve trading issues is unclear. At moment, the only choice is either go into insolvency or enter into a CVA.

It seems likely that the Restructuring Moratorium will be based on the existing Administration Moratorium, triggered by an out-of-court filing which allows directors meeting the relevant criteria that the business:

- must be "prospectively insolvent",
- have a genuine prospect of rescue;
- demonstrate that it has sufficient funds to carry during the moratorium, meeting current and new obligations as they fall due.

Needless to say, the full details of these announcements both are beyond the scope of this update and in any event have yet to be seen! If you want more details, do get in touch, and we will suggest a suitable contact for you.

Investments:

To reiterate, we are not qualified or registered for giving investment advice, again our notes in this regard are not investment advice – you must consult your investment adviser but if you don't have one, please do let us know and we will make a suitable introduction.

I reflected on the impact of the virus on the worldwide stock markets in my separate quarterly charity update – if you want a copy let me know.

With what is being heralded as the worst quarterly drop in the stock market since 1987, more investment management companies are testing the waters by providing commentaries, and I have reproduced extracts below from one such, Rathbones, – if you want me to send you the full note, let me know. The extracts below are simply an attempt to achieve a fair reflection of what was said in 3 pages of A4 – but of course there is a risk in that of failing to include a full enough explanation or taking a point out of context – you have been warned!

- *America's benchmark S&P 500 Index has experienced its fastest 20%+ fall since its inception in 1957. Drops of that magnitude – signalling a bear market – have on average taken over 200 days. But the record-breaking plunge is not a reason to expect a sharp technical rebound to begin soon. It simply reflects the gravity of the situation and the fact that markets have been blindsided.*

- *Now the likelihood that normalisation occurs in the second quarter (Q2) is as good as zero. Indeed, it is now widely expected that developed market GDP will suffer the largest quarter-on-quarter contraction in modern history in the three months to the end of June. Morgan Stanley, for example, forecasts a contraction of 7.25%, or a 30% drop in annualised terms. Others, such as Capital Economics and Oxford Economics, forecast even larger quarterly slumps of 10% and 11%, respectively.*
- *Broadly speaking, the two scenarios we are left with are: (i) a very significant contraction in Q2, spilling over into Q3, but giving way to a very strong rebound in the final three months of the year; or (ii) a very significant contraction in Q2 with subdued activity and profits lasting into 2021. We don't believe anyone can say which of the two is more likely with any rigour. It's not just about the epidemiology, but also governments' social responses and their electorates' tolerance of them.*
- *Nevertheless, we have calculated that 2,200 would be roughly fair value for the S&P 500 in scenario (ii) – at its 23 March low the index was at 2193. We believe the market is pricing in a very high chance of the worst-case scenario. Given we cannot say that scenario (ii) is more likely than scenario (i), the risks appear asymmetrical and we believe there is more scope for equity markets to rise from today's level than fall.*
- *That's not to say that we believe stocks have reached their bottom and will start rising now, or even next month. Of course, markets can temporarily overshoot on the way down to 'fair value', and there is a significant possibility that equities will hit new lows. But we represent long-term investors, and we're not in the business of trying to time the market with perfection in highly uncertain situations.*
- *But some commentators have been voicing an optimistic belief that we would caution against – we think the notion that the stimulus will prevent markets from falling any further is unrealistic.*
- *As mass shutdowns cause a sudden and sharp drop in cash flow for many companies, the threat to dividend payments is a great concern for many investors, especially our clients who rely on them for income. Cuts to dividends may indeed be larger than normal; many issuers are in hard-hit sectors, have more debt on their balance sheets ('financial gearing'), and pay very high dividends relative to their net income to start with.*
- *Ordinarily maintaining dividends would be a priority for management teams, but we are in extraordinary circumstances. That may make managers feel less blameworthy for cutting unaffordable dividends, especially if other companies are cutting too. Even as long-term investors we should prepare for this eventuality.*
- *Even companies with hitherto conservative and appropriate levels of financial gearing could face distress in these exceptional economic circumstances. This is leading them to reassess dividends, which are usually considered a measure of a company's strength, prestige and dependability, nowhere more so than in the UK. In this environment management teams will probably err on the side of caution and, if in doubt, suspend dividends now during the period of maximum uncertainty, potentially reinstating them later in the year once the crisis has been dealt with and economic activity returns to more normal levels.*
- *Before the pandemic, we were already wary of the low level of compensation on offer for taking on the additional risk of investing in corporate bonds (or 'credit') relative to safer government debt. The main measure of this premium is called the spread, or the gap in yields between bonds of different credit qualities. These spreads have since risen dramatically, especially for the*

poorest quality, or high yield, debt. The spread between BB-rated and BBB-rated credit (straddling so-called 'high yield' and better-quality investment-grade debt) is back to 2009 levels, vindicating our caution. This underlines the huge risk, especially to passively traded corporate bond funds.

- *We may see many more corporate defaults, and certainly more ratings downgrades, than you would normally see in a short recession, but that doesn't make it a financial crisis. Banks are unlikely to fail and a prolonged period of deleveraging and the deflation of real assets is unlikely.*
- *Yields on UK gilts, along with other major government bonds, initially plummeted as investors piled into safe-haven assets (yields move inversely to prices). But as panic spread through the markets, even assets normally considered 'as safe as houses' were being sold in the dash for cash. From their lows of around 0.25%, 10-year gilt yields surged back up, touching almost 1% in intraday trading in the height of the panic. The move suggested investors may be wary of the coming surge in budget deficits to finance unprecedented levels of government stimulus. But we don't believe UK or US bonds are at risk of a substantial sell-off in response to wider budget deficits. Bond investors aren't even shunning Italian government debt, even though there remains the troubling nexus between the health of Italian banks and the government's finances, which are much more indebted than the UK or US governments'.*
- *The medium to longer term outlook for gilt yields needs to be monitored carefully as the situation develops. But for the near term at least we don't think a large increase is yields is likely while the coronavirus crisis plays out and demand for safer assets continues.*
- *For UK investors, the steep drop in sterling in response to the pandemic may be worrisome. Why has the UK currency reacted so badly, given the rapid and robust response of our policymakers? First of all, sterling is highly cyclical – when markets are in 'risk-off mode', sterling falls. The flight to safety has been extreme, and it's possible we will see sterling fall further.*

Charities:

So far there have been no measures announced specifically designed to help the 3rd sector but the NCVO is regularly updating its online guidance resource and the information on its campaign to secure government funding commitment and a summary of governance consideration for trustees. These are both worth reading.

The Charity Commission as anticipated has published its initial responses to the crisis, and confirmed that their '*approach to regulation during this uncertain period will be as flexible and pragmatic as possible in the public interest, whilst helping trustees to be aware of and think about the wider or longer impact of their decisions on their charity'.* They will be prioritising registrations, permissions, reporting and other interactions related to COVID-19.

Clearly many charities are currently very concerned about their financial position, and the Charity Commission has offered sound if non-specific advice so trustees should identify their short, medium and longer term priorities, and amend their financial planning reflecting their particular circumstances, considering whether discretionary projects, spending plans or activities can be stopped or delayed to focus on essential spending if they are facing financial challenges at this time.

They confirmed, not surprisingly, that reserves can be spent to help cope with the Covid-19 crisis, so trustees should identify the restricted funds or assets and if these are internal only – i.e. designated you can quite clearly re-prioritise these. But if they are restricted funds and may only be used for a particular purpose defined by the donor. or are a permanent endowment, the Commission notes that in some instances there may be ways to amend these restrictions, but that accessing or releasing restricted funds should only be considered if other options are not possible. The Commission encourages you to also carefully consider the wider and longer-term impacts of making such a decision on your financial resilience and donor relationships. The Commission will be as helpful as possible and offer what guidance they can.

All decisions on such financial matters should normally be taken collectively by the trustees, and significant decisions and action points noted in writing. The Charity Commission have further more detailed guidance on financial resilience; on charity reserves; and a general tool to help trustees work out what to focus on.

They rightly note that Coronavirus is having a major impact on charity events and given the government's health advice has now led to charities having no choice but to cancel or postpone their AGMs and other critical meetings. This decision demonstrates good governance of your charity but needs minuting as such.

We would suggest charities making use of networking software such as Microsoft Teams or Zoom to allow 'virtual' meetings to take place, conducting meetings otherwise as normal, minuting the reason the meeting was virtual, otherwise it's going to be difficult to hold your AGM etc which may make it difficult for you to finalise your annual reports and accounts and the Charity Commission is asking you to try to get your annual reports to them on time. However, where the situation impacts on the completion of annual returns and accounts, charities with an imminent filing date can call them!

If you want to discuss the above further, please do get in touch.

Thanks to Good Finance, I have reproduced below a table giving an excellent summary of the help available to charities. These are covered in detail in this and my earlier updates**.** **Please do get in touch if you want further information or clarification and we'll do our best to help.**

UNDERSTANDING GOVERNMENT SUPPORT DURING COVID-19

Good Finance

GOVERNMENT SUPPORT	SOCIAL ENTERPRISES	CHARITIES	NOTES
Coronavirus Job Retention Scheme	✓	✓	HMRC will reimburse 80% of furloughed workers wage costs, up to a cap of £2,500 per month. HMRC are working urgently to set up a system for reimbursement. Existing systems are not set up to facilitate payments to employers.
VAT deferral	✓	✓	This is an automatic offer for all organisations that are registered to pay VAT. Businesses will not need to make a VAT payment during this period (20th March 2020 until 30 June 2020.)
Business interruption loans up to £5m	✓	✓	Only if more than 50% of income comes from trading
Statutory sick pay relief for SMEs	✓	✓	It covers up to 2 weeks of statutory sick pay for staff who are sick with Covid-19 or have to self-isolate.
Small Business grant funding up to £10k	✓	✗	Charities are not currently eligible for this. As they receive mandatory rate relief they are not eligible for small business or rural rate relief and so do not meet the gateway criteria for this support.
HMRC Time To Pay Scheme	✓	✓	Not for profits are able to take advantage of this Charities and other businesses with outstanding tax liabilities, may be eligible to receive support with their tax affairs through HMRC's Time To Pay service.
Grant funding 25k for retail, hospitality & leisure	✓	✓	For businesses in these sectors with a rateable value of under £15,000, they will receive a grant of £10,000. For businesses in these sectors with a rateable value of between £15,001 and £51,000, they will receive a grant of £25,000.
12-month business rates holiday for retail, hospitality and leisure businesses in England	✓	✗	Charities are not currently eligible for this. As they receive mandatory rate relief they are not eligible for small business or rural rate relief and so do not meet the gateway criteria for this support.

Other

A client with mortgages for residential homes was refused a mortgage holiday. He followed the steps in this link we provided and his mortage compnay gave the holiday.

https://www.gov.uk/guidance/government-support-available-for-landlords-and-renters-reflecting-the-current-coronavirus-covid-19-outbreak