

FINANCIAL ASSISTANCE DURING THE COVID-19 PANDEMIC

Information for LawNet Members

Introduction

There is little doubt that the pandemic will bring financial consequences for many firms, and that for some firms those consequences could be profound. This note aims to steer members towards useful information that can help them deal with the challenges ahead

Financing the business

For most law firms, these are the only sources of money to finance the business: -

Capital from owners	Borrowed money
<ul style="list-style-type: none">• Cheaper than borrowing• No strings attached - made available to the business on owners' terms only• Hugely flexible• Almost free money, though there's an opportunity cost (alternative use)• BUT, might not be readily available if owner's assets are illiquid• Many banks will still provide partner equity loans to enable owners whose assets are illiquid to bolster the firm's capital – often over lengthy periods	<ul style="list-style-type: none">• Involves costs (interest, arrangement fees)• Can be flexible (overdraft) or structured (loan)• May involve covenants, terms & conditions• Security may be required• Will need to be repaid at some point• All banks have confirmed their appetite to lend and the adequacy of their liquidity• See Appendix for information on the Government's Coronavirus Business Interruption Loan Scheme
Working capital (lock-up)	Government support
<ul style="list-style-type: none">• Most firms have invested significantly in working capital, i.e.<ul style="list-style-type: none">○ Work-in-progress○ Disbursements○ Debtors• According to the 2019 LawNet Financial Benchmarking Survey, the median investment in lock-up was 123 days.• The average turnover for a LawNet firm is approx. £5.2m, making average lock-up £1.75m.• Action on reducing lock-up can have a dramatic effect. For a LawNet firm of average size, taking just 20 days off lock-up, by converting work-in-progress to bills, and by collecting invoices, would bring in nearly £300k• It's free money	<ul style="list-style-type: none">• The availability or otherwise of 'time to pay' arrangements with HMRC for VAT and other taxes is still evolving. Within our own membership we have heard of different responses from HMRC offices around the country. We will keep you informed of developments.• There is speculation that the government may introduce assistance to underwrite a percentage of lost income for individuals along the lines of the measures introduced in Norway, Sweden and Denmark. We await announcements.

Useful sources of information and help

- [Institute of Directors](#). Lots of useful information here. Some is for members only behind a paywall, but most is free
- [PKF Francis Clark](#). Our auditors have curated a raft of expert help on their website. Their legal sector experience is unrivalled with more than 100 SME sized law firm clients, including LawNet member firms.
- Support from banks for their business customers during the pandemic:-
 - [Barclays Bank](#)
 - [HSBC](#)
 - [Lloyds Banking Group](#)
 - [Nat West / RBS](#)
 - [Yorkshire Bank / Clydesdale Bank](#)

I have engaged with the Legal Sector Heads from all the main banks where I have been able to identify such a role, and I'm planning to keep in touch with them. Each has signalled a willingness to talk about any cases where it does not seem that their bank is delivering on its promises.

- [Wilkinson Read](#). Experts in managing working capital to generate cash. Several LawNet members have worked previously - or are working currently - with Barry Wilkinson and John Humpherson on this and other issues in their business.

Appendix - Government-backed Coronavirus Business Interruption Loan Scheme

Full details are available on the [British Business Bank website](#), but here's our quick summary.

- Announced in the 11 March Budget, a variant of the earlier Enterprise Finance Guarantee Loan Scheme
- Expected to become available Monday 23 March 2020
- Government provides lender (bank) with guarantee for 80% of the facility value
- Must be a viable business proposition - scheme provides security where none / insufficient is available
- Scope:
 - UK based business, <£41m turnover
 - Most business sectors qualify, including legal
 - Businesses that have received state aid beyond €200k are excluded
- Facilities available:
 - Overdrafts
 - Invoice finance
 - Loans (3 months to ten years)
 - Asset finance (3 months to ten years)
 - Invoice finance