

WORKING WITH YOUR BANK & MANAGING LIABILITIES DURING COVID-19

COVID-19 has certainly brought the tourism and hospitality sectors to a standstill. The South Australian Tourism Commission (SATC) is focussed on supporting businesses and partners to not only get through the crisis but rebound strongly once the recovery process commences.

A series of fact sheets, written by Deloitte for the SATC have been developed to build capability and resilience in South Australia's tourism and hospitality industries.

Each fact sheet is organised under three key themes - *respond*, *recover* and *thrive* - with the aim of ensuring that businesses are ready to welcome visitors as soon as travel restrictions are lifted.

Most banks in Australia have been proactive in putting measures in place to support borrowers to get through the COVID-19 crisis. For those businesses that currently have debt or are considering borrowing, there are a number of issues that need to be considered.

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RESPOND – PREPARE AND MANAGE

SUPPORT FROM THE BANKING SECTOR

Australian banks rolled out a Small Business Relief Package effective from 23 March 2020, which:

- Includes a deferral of principal and interest repayments for all term loans and retail loans of a small business for 6 months (interest will be capitalised).
- Will be open to all current small business customers of a participating member bank, where the customer has advised that its business is affected by COVID-19, in all sectors of the economy, and on an opt-in basis

Banks are also able to individually offer relief that extends beyond these minimum terms, such as temporarily increasing overdraft facilities for 12 months or reducing variable interest rates on small business loans.

In implementing the Small Business Relief Package, participating member banks will apply the following definitions and criteria:

- a small business is defined in the Banking Code of Practice (amended for context) as if, at the time of applying for the relief, it has less than \$3 million total debt to all credit providers, including any undrawn amounts under existing loans, any loan being applied for, and the debt of all related entities that are businesses.

MANAGING EXISTING DEBT

Banks will not be surprised that you may be in breach of some of the conditions / covenants attached to your debt or that you may not be able to make your normal debt repayments for a period of time. However, to maximise the benefits of the Small Business Relief Package, it is strongly suggested that you carefully manage discussions you have with your bank. The below provides advice on how to manage these discussions:

- **Communicate.** Get on the front foot with your communications. Well planned communication instils confidence, provides you with intelligence and minimises surprises for both parties.
- **Demonstrate commitment.** A bank is more likely to support you, if you show you are committed to helping your business stabilise and recover. Be ready to explain what measures you are taking to reduce the cost of the business and how you are managing other liabilities you have in the business.

- **Have data ready.** Ensure you have data to support your request. Forecasts should be updated to reflect the self-help measures being implemented by the business and support packages being leveraged from the government.
- **Tailor your request.** If you need extra support from your bank in addition to what is being offered through the Small Business Relief Package, offer a proposed solution which outlines the anticipated impact of the request you are making. Consider whether the following requests are relevant to your circumstances:
 - A 12-month waiver of specific conditions / covenants (given covenants are generally calculated based on the last 12 months of performance).
 - Agreeing to delay any enforcement action by your bank for 12 months.
 - Deferring payments and adding interest payable to the principal portion of your loan for a period of time.

OBTAINING ADDITIONAL FINANCING

If you have reviewed the business' cash requirements and determined that the existing cash and debt facilities may not be sufficient, there are a number of actions you should take:

- Ensure that your cash flow forecast is up-to-date and that you have considered what possible down-side scenarios might look like.
- Identify potential sources of collateral for additional borrowing (property, inventory, receivables and other unencumbered assets).
- Register for the JobKeeper subsidy, which will pay eligible employers a wage subsidy, being a flat payment of \$1,500 per fortnight up to the fortnight ending 27 September 2020.
See [Managing and supporting your staff through COVID-19 fact sheet](#) and [video tutorial](#)
- If you are looking to switch banks, seek consent from your existing bank as soon as possible.

MANAGING OTHER LIABILITIES

In addition to debt, it is important to consider how you manage “other liabilities” you may have. The below outlines some of the key categories of other liabilities relevant to the tourism and hospitality sector businesses and the key considerations regarding these liabilities:

1) AMOUNTS OWING TO SUPPLIERS

It is important to communicate with suppliers early and regularly about the difficulties you are facing in making payments and request a payment plan. Explain how you are minimising your costs and working to manage your cash flow during this period.

2) MONEY RECEIVED FROM CUSTOMERS PRIOR TO A SERVICE BEING PROVIDED

For some tourism and hospitality sector businesses, amounts received in advance of a service being provided may be a material amount for the business.

For customers who may be looking to obtain a refund for a booking they have made but can no longer access due to COVID-19, consider whether you are able to offer them flexibility to re-book for a future date, offer free or heavily discounted “add-ons” or discounts to keep their current booking as an alternative to them cancelling. (See [Managing your cash flow during COVID-19 fact sheet and video tutorial](#))

AMOUNTS OWING TO THE ATO OR OTHER GOVERNMENT AGENCY

Where you have amounts owing to the government (in particular the ATO), contact the relevant government agency to discuss whether you are eligible for a payment plan.

4) AMOUNTS OWING TO LANDLORDS

Please refer to the separate fact sheet titled [Negotiating with your landlord or tenant fact sheet and video tutorial](#).



RECOVER - LEARN AND EMERGE STRONGER

Once your business has got through the worst of the impacts of COVID-19, consider whether the financing you obtained during that period is still appropriate. For example, you may wish to speak to your bank about altering the length and amount of the borrowings you took out during the time your business was impacted by COVID-19 to fit the current market conditions.



THRIVE - PREPARE FOR THE NEXT NORMAL

You should continue to closely monitor your compliance with all conditions and covenants that apply to your debt and communicate with your bank where you may be in breach of these conditions. As the world moves past the impacts of COVID-19, banks will look to scale back the temporary terms, conditions and waivers they put in place to help businesses through the crisis.

It will also be important to develop and implement a plan to reduce debt to an amount that is right for your business.



WHERE DO I GO FOR MORE INFORMATION?

The Australian Banking Association website is regularly updated with a range of information about the support packages that are being offered through banks. For more information [click here](#).

South Australian Tourism Commission (SATC) has engaged Deloitte to provide business support to the South Australian tourism industry following the COVID-19 pandemic.

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