



Renewal of Banking Facilities Post-Covid

The annual review of banking facilities is a tried and tested process with changes more evolutionary than revolutionary. However, the events of the last 15 months mean it's going to be a lot trickier this season.

The objective of the annual review meeting is obviously to renew banking facilities, but more than that, it is to ensure both Customer and Bank are on the same page, and that goals are aligned. In preparing for the renewal process it is helpful to remember that the Bank/Customer interaction should not be an imbalanced negotiation, it is a relationship of equals. Both parties have things to gain, and things at risk.

Benchmarks Blurred

Imagine you are the bank manager for your business. The financial accounts for FY2020/21 may bear no resemblance to previous years' figures – turnover down, unexplained margin trends, new debt (potentially to a third party), adverse debtor & creditor day movements, depletion of fixed assets (no replacement) and weakened security, breaches in financial covenants, and a parlous cash position.

Available bank tools, benchmarks and algorithms that are supposed to help you understand the business are screaming **PROBLEM CUSTOMER!** You think the business has done a reasonable job of managing through the crisis but you'll need more evidence and need to get answers to more questions to substantiate the renewal recommendation.

The Reality Check

Meanwhile as customer, you have been busy navigating through the Covid-19 disruptions, you've a business to run, sales contracts to fulfil, and staff to pay, on top of which you have the Bank to prepare for and they're asking more questions than normal.

Make your Best Case

Much of what was thrown at you during the Covid-19 crisis was unprecedented, hence you will not be assessed on the disruption to your business, rather evaluated on how you responded. This is the opportunity for you to show that you are in control.

Now is the time for you to **Share, Explain, and Be Confident.**

Tell your Story

Whilst all businesses were faced with disruption by Covid-19, only you know how you dealt with the challenges in your business. This is your chance to explain exactly how you responded – highlight the things that worked, but also those that didn't. For the latter, explain how you rectified these issues, or your plan to deal with them now.

Many businesses applied for and were granted CBILS/BBLs without having a clearly identified use, but took these anyway to have the comfort of a 'fire-fighting' fund. Providers were not necessarily the main bankers potentially causing split security for the CBILS, and increased Personal Guarantees. This may not be ideal as normal conditions return. Now is the time to reflect on these loans. Be clear on your strategy – do you have a project that will deliver a return greater than the carrying cost of this loan, or would it be wiser to pay it down?

This is the opportunity to be clear on your financial strategy designed to improve profitability and rebuild Balance Sheet strength.

Prepare, Prepare, Prepare

These factors reinforce the need to prepare for the annual bank renewal in a way that you perhaps have not done in the past. It will be useful this year to provide a commentary document that covers the key issues in addition to the usual provision of financial information. Include carefully considered projections, particularly if things have changed significantly and this is not something that you have provided previously.

This approach helps to reinforce the journey from historic performance, through strategic plan, to projected outcome.

Show that you know where you want to go, and the steps you are taking to get there.

Finally, Mistakes to Avoid

There are certain truisms that have always applied to the bank/customer relationship which need to be followed even more closely in the current environment:

- Deliver performance information on time.
- Take care to deliver all the information requested.
- Remember, surprises happen in business - bad news isn't necessarily fatal, hiding it can be.
- Early sharing shows management maturity, more so if it comes with rectification options.

Help is at Hand

This year's annual review has the potential to be complicated. Having a trusted adviser to challenge, validate, and originate ideas, and advise on the banking relationships has never been more necessary. At RFA we can help guide you through this phase (including exploring availability of grant assistance) to help you achieve the optimum solution for your business.

We would be delighted to speak with you.

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