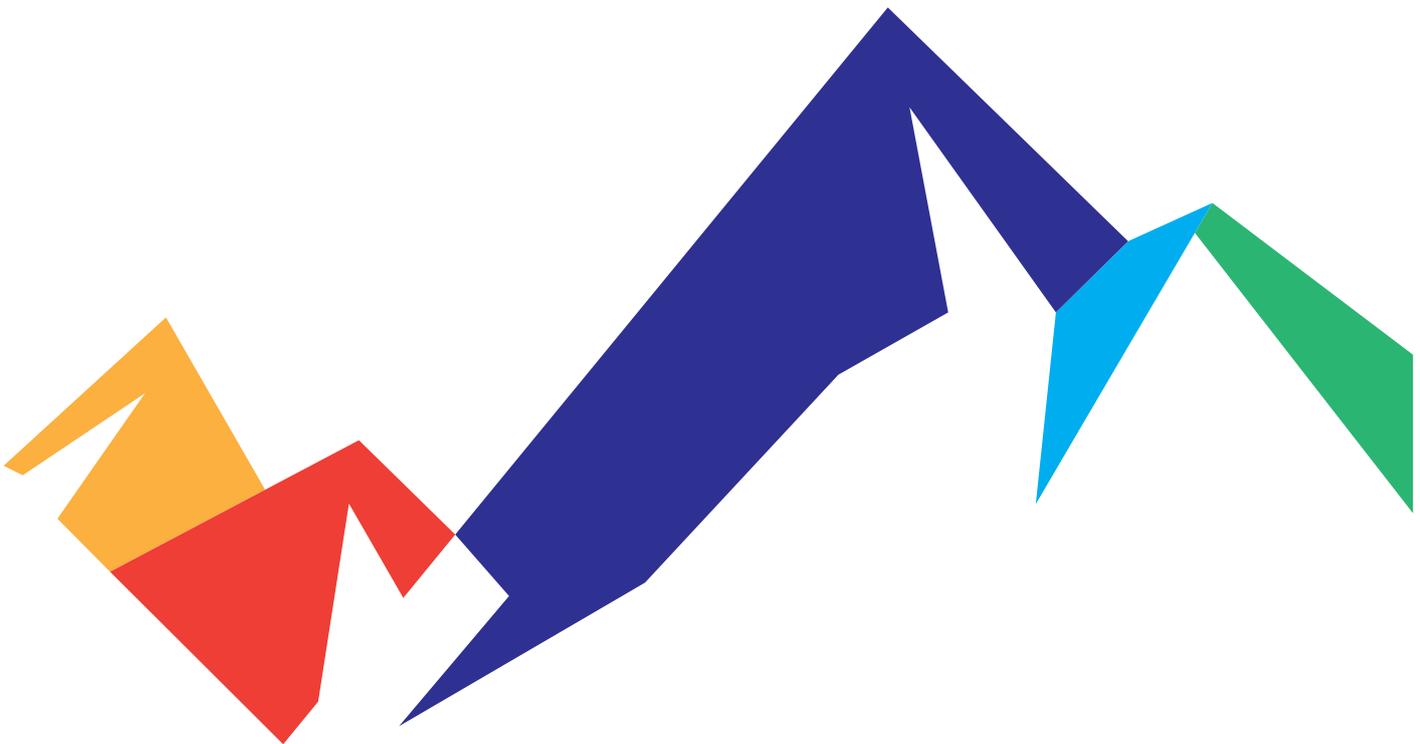


Board Briefing Series

Planning for Redundancies after Furlough

Board Briefing Series ref no: CP02

This article is one of a series of Board Briefings that consider the various challenges and opportunities facing directors which result from the turbulence for business caused by the Coronavirus Pandemic. It is written from our perspective as turnaround investors who have the benefit of objectivity and the desire to ensure that any businesses we invest in will both survive and grow.



Over 30 years' experience of backing directors by investing in their business

Executive Summary

The lockdown period has highlighted three areas of cost for those many businesses impacted by a loss of income due to Coronavirus that have found themselves unable to make cuts to these fixed costs. The furlough scheme has justified putting off dealing with the cost of employing staff but now it is due to be phased out boards need to make decisions about how many staff they can afford to keep on the payroll.

This Board Briefing covers the key considerations for directors and offers a framework for making and implementing decisions.

Planning for Redundancies after Furlough

In any emergency situation there are winners and losers. Not since the second world war (1939-1945) has there been global disruption on the scale caused by the Coronavirus. The WTO forecast that world trade could fall by between 13% and 32% in 2020, depending on assumptions about the length and severity of the Coronavirus Pandemic.

Unusually, there is no shame for a board of directors to admit it is in unfamiliar territory facing a financial and operational crisis that will require radical decisions. The board that had been well composed with experience to thrive in normal market conditions and has worked effectively as a team to drive profits based on productivity and efficiency is now likely to at least be feeling unsure about the business's future and possibly experiencing personal anxiety.

The key issues the board needs to face about surviving the crisis are discussed below and in more detail in future Board Briefings.

Equally important however is one of strategy and how the board positions the business for a new 'normal' and crucially how it takes advantage of the changed circumstances.

Impact of staff costs on business

Content:

Crucial to your decision-making process is a thorough knowledge of your pre-, during- and likely post-pandemic cash flow, overheads and management accounts. Points to consider include:

- Staff requirements pre-coronavirus;
- Use of Coronavirus Job Retention Scheme to fund staff on furlough;
- Anticipated staff requirements post-coronavirus;
- Uncertainty about staff requirements.

Furlough scheme key dates

Content:

- June 10 - closed to new entrants;
- July 1 - flexible work, previously furloughed workers and continuing claims;
- August 1: NI and pension contributions resume, Govt pays 80% of furloughed wages;
- September 1-30 - Govt contribution reduces to 70%;
- October 1-31 - Govt contribution reduces to 60% and maximum amount cap;
- November 1 - scheme ends.

Reference: <https://www.cipd.co.uk/knowledge/fundamentals/emp-law/employees/furlough>

Considerations about staff

In addition to some practical considerations, there are a number of statutory requirements in relation to employment that apply regardless of the current unprecedented situation. Some of these will affect both the time it takes and the costs of managing the redundancy process.

- Obligations on employer retaining staff, even on furlough:
 - Notice period;
 - Holiday accrual;
 - Length of service;
- Acting now versus putting off decision making;
- Skills, flexibility and willingness of staff to perform other roles;
- Realism about the prospects of being able to afford them.

Consultation

Discuss the options with all staff:

- Roles and lack of work;
- Need to cut costs;
- Prospect of redundancies;
- Change terms & conditions;
- Willingness to consider alternative forms of contract such as zero hours or flexible working;
- Blanket contract for everyone to have variable hours contract.

We also advocate meeting with each member of staff to understand their particular circumstances before deciding upon which option to follow.

Note that any variation of contract that adversely affects employees can be deemed to be constructive dismissal if implemented without consent. Indeed after the event consent can also be deemed coercion unless it is given as part of a compromise agreement under the Employment Rights Act 1996 with employees receiving independent legal advice.

Redundancies

If the decision is made to make redundancies due to a lack of work then the formal redundancy procedure should be followed:

- Decide upon selection criteria for redundancies eg skills/ length of service / last in, first out;
- Discuss the need for redundancies with all staff ideally in a staff meeting with everyone present so everyone hears the same message at the same time;
- Meet each member of staff to discuss selection criteria and scoring – we generally get staff to score themselves by comparing themselves with other staff members;
- Make decision based on scoring;
- Meet each member of staff to go through your decision.

Other factors

- Statutory redundancy notice periods - at least one week's notice if employed continuously for 2 years, plus one week's notice for each year of continuous employment up to a maximum of 12 weeks' notice;
- Follow collective consultation rules where it is a legal requirement to notify the Redundancy Payments Service (RPS) using an HR1-form (Advance Notification of

Redundancies form) if you plan to make 20 or more redundancies at a single establishment in any 90-day period:

- For 20 to 99 employees – at least 30 days' notice must be given before the first redundancy;
- 100 or more employees – at least 45 days' notice must be given before the first redundancy.
- While there are no set rules to follow if there are fewer than 20 redundancies planned, but it's good practice to fully consult employees and their representatives. We advise following the collective consultation steps. An employment tribunal could decide that you've dismissed your staff unfairly if you do not.)

Collective consultation steps

For over 20 employees, you must notify the Redundancy Payments Service (RPS) before a consultation starts. The deadline depends on the number of proposed redundancies.

Consult with trade union representatives or elected employee representatives - or with all staff directly.

Provide information to representatives or all staff about the planned redundancies, giving representatives or staff enough time to consider them.

Respond to any requests for further information.

Give any affected staff termination notices showing the agreed leaving date.

Issue redundancy notices once the consultation is complete.

Decisive action

The foundation for a successful turnaround is a clear and well-defined process driven by directors who are confident it can be achieved based on having done so (ideally multiple times) before.

The bridge analogy is a useful starting point and will require stakeholder buy-in, clear communications and decisive action to implement the plan followed by rigorous discipline in both achieving targets and measuring results.

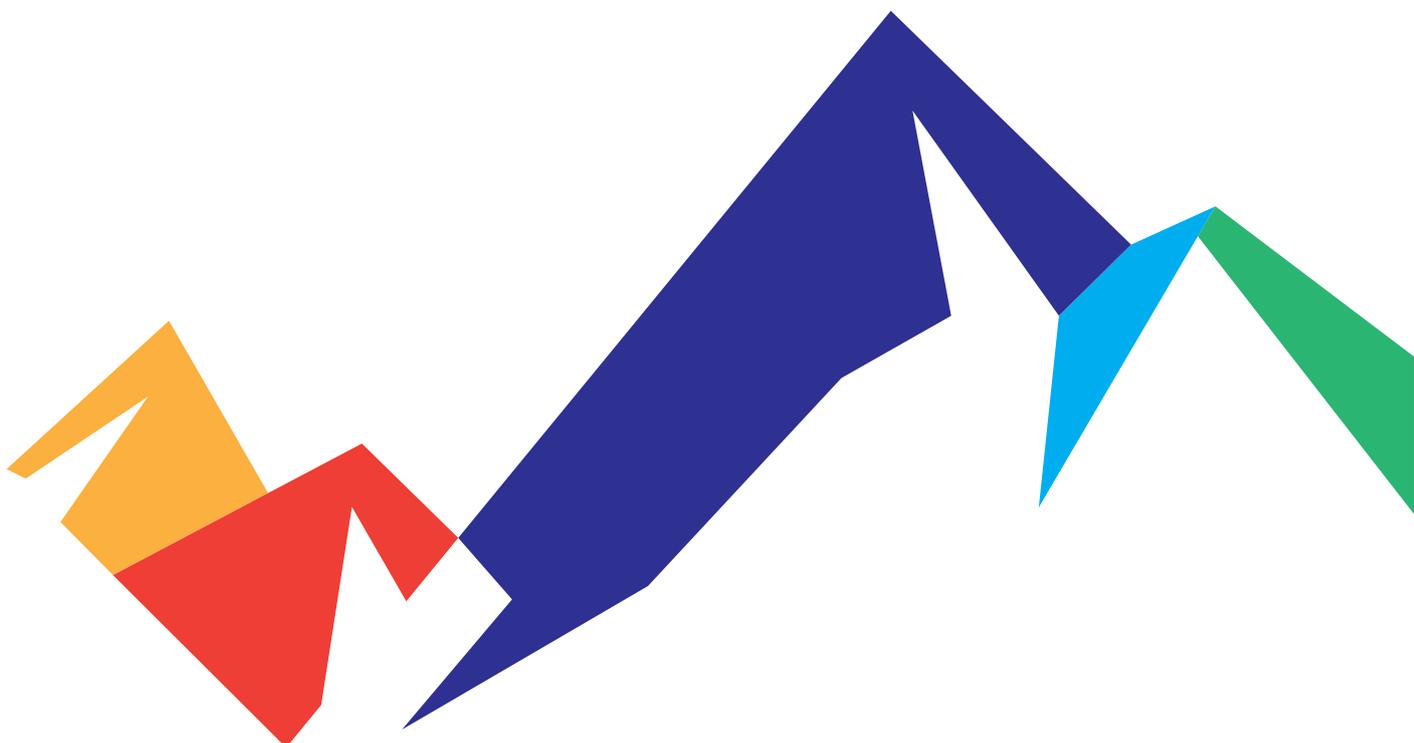
Government Assistance is like a Covid-19 ventilator, it is there to keep your business alive for a brief period. But also like coming off a ventilator it needs to be followed up by a period of recovery. Survival involves a plan for decisive action.

Do not delay in matching the experience within your board to the radically new "normal". The demand for business turnaround experience and knowledge of the specialist business survival tools is massively outstripping supply.

Questions for the Board

Does our team have all the right players to win in the current situation?

Are we thinking strategically enough about a future beyond the immediate crisis?



About K2 business partners

Trading as **K2 business partners** since 2001, we are turnaround investment partners, each of us with over 30 years' experience of backing directors by investing our time and expertise in the turnaround of their business and the realisation of business value.

We focus on companies with £5m-£20m turnover led by committed boards and with assets that other investors find difficult to value.

K2 invests in companies that manufacture and supply house building and construction products and services; IT & technology service providers; database, branded and intellectual property businesses; and industrial manufacturers.

For more information visit www.k2-partners.com

Are there any topics you would like us to cover in our Board Briefing series? Please let us know at info@k2-partners.com

