



Slow down or close down

The scale of clubs is different and therefore the scale of responses to crisis is different.

In the environment that we are entering we need to remember that everyone in our clubs and community will be impacted by the social distancing strategies to mitigate the health system impact of the crisis. Those affected will include:

- Club members, who may not be able to participate in club activities or attend social settings,
- Suppliers who have contracts with a club,
- Employees of a club who will either be forced to take leave or who will not be paid if they are casual or have insufficient leave balances,
- Banks who may see payment terms and covenants breached by clubs,
- directors who may be concerned that a club is in a potentially insolvent situation when it cannot pay its debts as it normally would.

Given the community-wide impact that we are facing, the starting point for dealing with this crisis is to appreciate that that we are all in a similar position and that we are all seeking to minimise the damage that is suffered. Naturally our primary focus is to minimise our own damage.

As we continue to progress through this coronavirus crisis there are two distinct scenarios to consider. The first is that there is an imposed mandatory closedown of hospitality venues which will see all hospitality revenue eliminated and will require a response to effectively put the venue into a suspended state ready to reopen at some future time. The second scenario is where the venue has a choice to continue to operate on a limited basis but will face large losses.

One of the most significant costs for a club is its payroll and in a scenario of declining revenue, payroll costs should be reduced to match the decline in revenue. There is a point where payroll cost becomes a fixed cost and it can be reduced no further. At this point wages may represent a holding cost if the venue is in a situation where it can remain open. If a venue is forced to close as a result of government direction, it will be necessary to maintain a minimal staffing presence to maintain the security of the venue and also to address ongoing administration issues that will need to be attended to during the period of closure and to prepare for reopening.

As a result of the crisis clubs will face a situation where the business is in negative cash flow. The period in which this prevails is currently uncertain, but based on the address by the Prime Minister on 18 March it may be as long as 6 months. In those circumstances the terms of trade of many suppliers will vary as they will adjust their trading terms to respond to the crisis.

It is important that when making decisions about whether a business is insolvent or not that the varying terms of terms of trade are considered. The special consideration will be given by most statutory bodies particularly federal agencies should be factored into cash flows to create a view of the clubs capacity and how it manages given the resources available to it. NSW statutory bodies will make their position clearer in coming days. Obviously some of the smaller creditors of clubs will need to be paid in their ordinary trading terms of business so it is important that a dynamic cash forecast is prepared.

Matters to consider in scenarios of declining revenue and venue closures include:

- clubs should equip themselves with information tools to forecast the likely results of decisions. Such decision tools must include a dynamic forecast that shows the impact on profit and/or cash as a result of the decisions being taken.
- Consider how to partition the venue into a smaller operating space, reducing the number of outlets;
- Reduce casual hours in line with the decline in revenue. Compliance with industrial instruments may be impractical and therefore the club must take all care to act reasonably in the circumstances;
- Consider how to support casual staff who are without shifts;
- If the reduction in casual hours does not provide sufficient wage savings to match the decline in revenue, the next step is placing permanent staff on leave, paid or unpaid depending on their circumstances;
- workplace safety considerations are necessary when looking at minimum staff levels to ensure that the safety of employees in the workplace;
- an analysis should be undertaken to compare the cost of closing a venue completely and holding it with the cost of running part of a venue it with revenue albeit at a loss if that choice remains available;
- consider applying for deferral of gaming duty and other statutory payments such as BAS, payroll tax and land tax;
- in circumstances where there is a direction close a venue the club should identify issues to manage to close a venue and checklists are being developed to help guide clubs in these circumstances;
- many commercial contracts will have terms breached as a result of venues closing and/or volume targets not being met, discussions should be held with those parties;
- many club service and supply contracts will not have exclusions for a mandated closedown. Resolving contractual obligations will need to be done on the basis of maintaining mutual goodwill and understanding, in the hope of avoiding terminations, penalties and damages., Communication is an essential to achieving an outcome to reduce the risk of legal consequences and grievance;
- clubs may have standing orders for products they should consider cancelling those orders;
- The club also needs to have a clear analysis of how its cash position will move during the term of any closure or during the period of the reduction in trade;
- subject to the outcome of the analysis if the club is reliant on its own cash reserves it should determine if those reserves are sufficient and alternatively consider approaching its financier for support;

- for a club with larger debt has generally low cash reserves then it will need to be talking with its bank about deferring principal payments or extending facilities.

The commercial impact of the crisis will cause many businesses to find themselves dealing banks which are overwhelmed with requests for support. Therefore, the sooner a club develops its plans and understand the impact of closure or reduced business the better it will be able to manage its way through the crisis.

Some of the operational issues that must be considered are:

- maintaining security
- dealing with cash on premises
- energy cost minimisation
- safe shutdown of major plant items
- beverage operations, dealing with perishable and limited shelf life stock, cleaning cellar and beer lines
- food operations, dealing with perishable and limited shelf life stock, cleaning kitchen areas and refrigeration
- dealing with suppliers including returning product for credit and extending payment terms if possible
- notification to insurers of change in circumstances regarding trading operations
- maintaining compliance requirements,
- considering electronic attendance for board meetings,
- reviewing the capacity to conduct general meetings, conducting elections and possibly seeking extensions of time for compliance.

For more information on these issues, please call Greg Russell on 02 9957 6700 or via email at greg.russell@russellcorporate.com.au



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