

Guernsey's Covid-19 response

Guernsey's pandemic response has been admirable, but lockdown will increase pressure on businesses.

Ben Rhodes and **Andrea Harris**, directors of recovery & reorganisation at Grant Thornton Channel Islands, offer their insights.





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A pre-pack is a sale of business and assets negotiated prior to liquidation or administration, completed by the liquidator or administrator once appointed. The business can be sold quickly for maximum value, and continue uninterrupted with jobs retained, free of debt. Purchasers in a pre-pack are often associated with the original business, e.g. directors or owners.

A pre-pack can allow owners to purchase their business through a formal process, and mothball it while waiting out uncertainty.

Pre-packs are subject to strict rules, and it is essential professional independent assessment of outcomes favours the pre-pack so creditors' return is no worse than other options.

Directors' duties

Directors must be mindful of fiduciary duties and whether their business continues to meet the 'solvency test' - can it meet debts as they fall due and are assets greater than liabilities? If not or there is uncertainty, directors must act in creditors' best interests, and seek appropriate professional advice - or risk personal liability.

Cash control

Understanding the cash position is critical, with robust cash-flow forecasts based upon conservative assumptions essential. Cash control should come into focus. Businesses may face reduced income, while fixed costs and expenses continue. Businesses must maximise cash inflows while minimising cash outflows.

Arrangements

Businesses may negotiate arrangements with creditors, such as landlords and banks, either informally or formally via Court application. For example, deferring debt payment and or a discount. Alternatively, the business fails and creditors may receive a smaller return. A professional advisor can assist.

Pre-packaged sale of business

One option to keep the business operating may be to sell the underlying business and assets via liquidation or administration, as a 'pre-pack'. Pre-packs are commonplace in the UK and were first introduced to Guernsey by Grant Thornton in 2014.

Managed wind-down

Owners may decide it is time for wind-down. This can be achieved via a voluntary liquidation, whereby assets are realised, liabilities are settled, and the remaining balance after costs is paid to shareholders.

Administration

Guernsey's court administration regime is viewed as a 'rescue process' for insolvent companies, designed to achieve survival (via operational or financial restructuring, or a business sale), or a better outcome than a compulsory liquidation. An administrator might continue to trade the business, while working with secured creditors and other stakeholders.

Liquidation

If an insolvent business is beyond rescue, voluntary liquidation or a court compulsory winding up are options. The liquidator will realise assets and distribute proceeds, less costs, among creditors. The liquidator will consider directors' actions and may pursue legal avenues if there has been misconduct. Directors must be mindful of fiduciary duties when faced with potential insolvency.

For more information please contact:



Ben Rhodes
Director | Recovery & Reorganisation
T +44 (0)1481 753431
E ben.rhodes@gt-ci.com



Andrea Harris
Director | Recovery & Reorganisation
T +44 (0)1481 753400
E andrea.harris@gt-ci.com



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