

# Covid-19 – Business Support

## Expectations vs. Reality

30<sup>th</sup> March 2020



The recent Budget and subsequent announcements by the Chancellor included measures to help both businesses and workers cope with the effects of the Coronavirus ('Covid-19'). In recent weeks, several policies have been revealed to help businesses manage the impact and Welsh Assembly Government are announcing a range of measures to enhance support for Welsh businesses this week. These schemes will be run centrally by the government through local authorities and as an extension of existing processes such as PAYE and the administration of business rates. As a result, the implementation and subsequent efficiency of these schemes can be directly influenced by the UK government through ordinary channels. Below is a summary of these fiscal policies:

## Coronavirus Job Retention Scheme

- Payroll support for all firms and enterprises within the UK, with no limit on the total level of support available
- Cover is for employees who are "furloughed" instead of being made redundant
- Grant support will cover up to 80% of the salary costs of anyone not working due to the effects of Coronavirus on their employer

## Rates Relief

- Businesses in the retail, hospitality and leisure sectors in England will not have to pay business rates for the 2020-21 tax year
- Businesses currently eligible for small business rate relief can claim a cash grant of £10,000
- Businesses in the retail, hospitality or leisure sector in England (this has not been agreed by Welsh government) will receive a cash grant of up to £25,000 per property

## Tax Relief

- VAT payments can be deferred for three months to 30 June, with repayment by March 2021 and no application is required
- HMRC's 'Time to Pay' service will be broadened, allowing companies to defer their tax bills
- For those who are self-employed, the July self assessment payment for income tax has been delayed until January 2021

## Self-Employed

- Self-employed workers will be able to access a taxable grant that is worth over 80% of their average monthly profits over the last three years
- Claimants can receive a maximum value of £2,500 per month, with additional grants available to cover the associated NIC and auto-enrolment costs
- The scheme will be open for at least three months and will be extended if necessary

## Statutory Sick Pay for SMEs

- Companies with fewer than 250 employees will be covered for the cost of Statutory Sick Pay from the first day of sickness, for up to two weeks
- Employers will be able to reclaim expenditure for any employee who has claimed SSP as a result of Covid-19
- The government will work with employers over the coming months to set up the repayment mechanism for employers as soon as possible

## Coronavirus Business Interruption Loan Scheme (“CBILS”)

### Overview:

- CBILS is a business financial support scheme established for businesses with turnover of up to £45m (commenced on March 23rd)
- Lenders benefit from a government-backed guarantee against 80% of the new outstanding facility balance
- Facilities of up to £5m are available and are interest free for the first 12 months
- Businesses must evidence signs of Covid-19 disruption and prove a viable business case in the longer term
- The scheme is being coordinated by the British Business Bank and is supported by 40 lenders

### Expected Effect:

- The 80% guarantee from the UK government will ensure that marginal business cases are supported
- Flexible lending terms will offer businesses liquidity support to trade through Covid-19
- With the scheme running until the end of September 2020, the negative effects on business caused by the peak of the virus will be bridged by CBILS
- CBILS will support a large portion of UK businesses experiencing trading difficulties at present

### Facilities Available Under CBILS



Overdrafts



Term Loans



Invoice Finance



Asset Finance

## Covid Commercial Financing Facility (“CCFF”)

### Overview:

- CCFF is a scheme launched by the Bank of England (“BoE”) to ensure that large firms have sufficient liquidity to bridge the disruption caused by Covid-19
- The funding consists of the purchase of commercial paper (a short-term bond) of up to one-year maturity from firms making a material contribution to the UK economy
- To be eligible, the business must have had, prior to being affected by Covid-19, a short or long-term investment grade rating
- The route that the Bank of England decides to take to assess this for non-rated businesses is, as yet, unconfirmed

### Expected Effect:

- Provides an opportunity to inject capital into companies allowing them to stabilise their operation over a one-year horizon
- Given CCFF is the vast majority of the £330bn pledge from the BoE and the Chancellor, it is hoped that the financial profile of the UK's largest firms will be shored up
- CCFF will support corporate finance markets overall and ease the supply of credit to all firms by reducing the risk of a ‘torpedo insolvency’
- Britain's largest employers can continue as a secure going concern, stabilising the UK jobs market, taking the strain away from other schemes for those hardest hit by Covid-19

**£330bn**

Size of support package pledged to UK businesses

**15%**

The support package is equivalent to 15% of UK GDP

# Key Funding Schemes - Reality

Despite the best intentions of UK government, businesses are struggling to prise the billions in relief that has been pledged to those in distress as a direct result of Covid-19. The vast majority of aid is comprised of commercial paper, offered to big corporations holding investment grade credit ratings, which consists of just 108 entities. As a result, there is exclusivity at the top end and confusion at the bottom. Those with turnover above the £45m to qualify for CBILS are stranded and for those that do qualify, their ability to access funds is opaque at present. Below is a snapshot of current sentiment.



Of SMEs believe that CBILS funds will not reach them before Easter (April 12)

Source: MarketFinance

Between  
4000-5000

Companies are in the 'stranded middle', falling outside of the scope of both CBILS and CCF

Source: CBI - Access to Finance Webinar



Of SMEs reported a fall in revenues of between 40-50% in March

Source: MarketFinance

£250,000

Amounts above £250,000 may be subject to significant personal guarantees on behalf of the borrower.

Source: Yahoo Finance



The peak of Covid-19 in the UK is expected in June and July

Source: Imperial College London

500,000

Have applied for universal credit in the last fortnight

Source: The Sunday Times

**sky news**

## Hospitality firms beg government to speed up aid schemes

A letter to the chancellor seen by Sky News accuses banks of "profiteering at the expense of distressed businesses".

**Bloomberg**

Economics

## U.K. Business Rescue Plan 'Too Complicated' to Stop Mass Failure

By [Edward Robinson](#)  
26 March 2020 11:14 GMT

- ▶ Bankruptcy wave looms for small and medium sized companies
- ▶ Guaranteed loan plan faulted for traditional approval process

**REUTERS**

TECHNOLOGY NEWS MARCH 26, 2020 / 2:43 PM / 2 DAYS AGO

## UK digital banks unable to provide state funds to coronavirus-hit firms

**yahoo!**  
finance

## Banks under fire over personal guarantees on coronavirus loans



Oscar Williams-Grut  
Senior City Correspondent, Yahoo Finance UK  
Yahoo Finance UK March 26, 2020

**small**  
business.co.uk

## Banks not cooperating with coronavirus loan, complain small businesses

News 27 MAR 2020



# Suggested Actions

We would urge both the government and its funding partners to revisit the measures that have been introduced in collaboration with the affected business community. The heart of the problem is the delivery of cash flow through an uncomplicated and efficient process. This requires a change in mindset on behalf of the vital financial partners who, as institutions, are prone to process and excessive collateral. We have explored four areas that could yield short-term benefits for SMEs.

## Enhance Existing Facilities

- At large, banks are dealing with existing customers and, therefore, have the benefit of a track record, positive KYC checks and management information
- Existing facilities should be reviewed, with relaxed repayment terms for loans (i.e. capital repayment holidays) and ignoring covenants with an immediate impact
- Rather than expose businesses to the rigour of introducing a new loan, enhancements could be made to existing facilities, such as:
  - Increasing the advanced rate from an invoice discounting facility from c.75% to 90% and extending the 'allowable period' by 30 days
  - Automatic overdraft increases of 10-15%
  - Extension of proactive supply chain finance facilities to SMEs which allow for faster payment
  - More efficient and deliverable bond facilities
  - Topping up property mortgages

## Use FinTechs

- The UK is the leading global FinTech hub with a thriving ecosystem and international talent pool spanning the whole country
- Mainstream lenders are struggling to process the large number of applications for CBILS, potentially jeopardising the financial security of SMEs
- FinTechs are already working with the UK government to diversify the source of funding to SMEs and they want to continue to help
- A taskforce has been established which includes FinTechs 'Wisefunding', 'Nimbla' and 'NorthRow'
- Even before the Covid-19 crisis, SMEs were struggling to access enough credit, with over £59bn in unmet lending needs (Source: *The Fintech Times*)
- FinTechs should be used to facilitate improved access to the schemes through turnkey lending platforms, risk assessment support and KYC checks to expedite the allocation of funding

## Introduce Equity Stakes

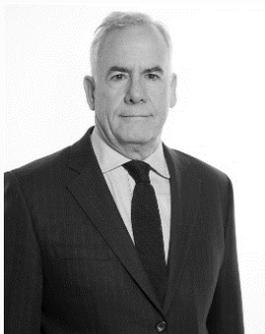
- There are increasing calls for a different approach to supporting struggling firms
- By taking an equity stake in firms in distress, the government could shore up balance sheets for the period of disruption caused by Covid-19
- An equity stake would add a layer of protection to the taxpayer, ensuring that there is an upside benefit upon economic recovery
- Such measures have been introduced by the US government in times of distress in specific sectors, such as the airline industry
- Equity stakes could also provide a convertible position to banks, which the government could subsequently buy out
- Practicalities will need to be explored

## Extend Revenue Caps

- While launched with best intentions, the government funding schemes fail to service a significant proportion of the UK mid-market population
- The current CBILS revenue cap of £45m excludes c.4,000-5,000 businesses from vital funding
- Revenue caps should be extended to bridge the gap between CBILS and CCFF and this should be done through direct consultation with key stakeholders with 'an ear on the ground'
- Mass insolvencies in the 'stranded middle' is likely to affect businesses ability to access finance under existing schemes, posing a significant economic risk to the UK

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## **Gambit Corporate Finance**

Established in 1992, Gambit is an independent corporate finance advisory firm specialising in advising private and public companies on mid-market transactions in the UK and overseas. With offices in London and Cardiff, Gambit is widely recognised as a market leader in M&A advice in the Human Capital sector having built up detailed industry knowledge and an enviable track record in deal origination and execution.

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