"CBILS"

The "Coronavirus Business Interruption Loan Scheme" purpose is to help businesses whose income has temporarily suffered because of the

The business would have been successful before the outbreak and is expected to be successful again; the virus blip being a one-off problem.

The scheme has been updated since launch. There are a couple of key benefits to help businesses, affected above, access finance:

- A repayment holiday of 6 months and an interest holiday of 12 months. These can be extended in 3-month blocks if you have a problem later. This is hugely helpful as it will limit the size of any loan required (as a business won't have to borrow extra to cover the first months of a loan repayment).
- For business and business owners with few assets, the UK government will offer the bank a guarantee of 80% of the loan value.

  This is the biggest single change to the scheme is the way the security works. It now means that you're liable for 20% and the government 80%, after the bank receives the proceeds from the sale of any business assets. If there's no personal guarantee then the 20% liability won't happen. The implication is that the banks are looking equally hard at the repayability of all applications to ensure that nothing is risked. Further, interest rates will be higher to cover potential losses.

  It does not mean that a business whose debt capacity is £200 can now borrow £1,000.

To qualify

In broad terms, the scheme helps existing banks and financial institutions to make available (with guarantees from the British Business Bank – in the same way that people may recall that the Small Firm's Loan Guarantee Scheme worked) facilities such as

- Term facilities
- Overdrafts
- Invoice finance facilities
- Asset finance facilities

To qualify, applicants must

- Be UK based, with turnover of no more than £45 million per annum
- Operate within an eligible industrial sector (a small number of industrial sectors are not eligible for support or subject to limitations)

It's clear that you must have a relationship with a bank in order to apply. In theory an account with a new bank could be opened. In practice, anti-money laundering regulations require a personal meeting and sight of documents. Such meetings are currently suspended because of social distancing.

Who doesn't it cover?

There are two large areas that CBILS won't help a business that doesn't make a profit and doesn't generate cash. Apologies if this seems obvious. A start-up, for example, may be yet to have revenue and is spending cash investing in the idea. The support needed is equity and not debt.

Similarly, businesses which have historically made losses and be in arrears with creditors do not look like businesses that could repay the loan. On that basis, they are unlikely to be successful either.

Loan amounts

It seems that different banks are applying different multipliers to different accounting metrics; for example, Lloyds' maximum loan criteria is the smaller of:

- Twice the annual wage bill
- Quarter of 2019 revenue
- Less than 18 months' regular expenses.

Other bank criteria seen includes net profit or revenue.

All loans will be subject to affordability.

Assets and security

It's worth touching on the requirement for security.

Smaller loans (up to £250,000) may require security but they will not require a personal guarantee. This has led some lenders to withdraw from the scheme.

If a company has assets (property, stock, debtors, intellectual property, etc) then the lender may take a "charge" over those assets and can force their sale to cover an unpaid loan.

Whilst personal guarantees are not being taken for loans under £250,000, personal asset statements and a list of personal expenditure are being asked for.

The personal asset statement would give the lender a view on whether they wanted formal security on certain property such as investment property.

State Aid

In simple terms, if your business has received state aid then you'd know as the declarations and monitoring paperwork can be extensive. Examples of state aid are:

- A grant. This could be for employment, equipment purchase or an R&D project such as Innovate, SMART or Horizon 2020
- An investment or loan from a funder backed by a regional development fund (for example the Development Bank of Wales, Midlands Engine Fund, Northern Powerhouse).
- Environmental funds to, for example, change emissions in a traditional industry.
- The SME R&D Tax Credit is state aid.

Good indicators of state aid are having to complete regular job creation/maintenance reports.

Application process

The application processes seen have been paper based with online applications not yet available.

The forms are thin and applications now seem to be driven by bank statement extracts. This automated analysis will help handle the volume of applications but will probably disadvantage all but the strongest applications.

It's important:

- To make sure that the application amount fits the criteria before submitting the initial forms
- To have a financial forecast that shows the repayability of the loan without the business suddenly becoming more successful than before. If required, a template is available from insights@pcfo.co.uk.
- To have a list of income and expenditure for the directors
- To have an asset list for director/shareholders (a personal wealth statement)

Some pragmatism is also going to be needed as banks are inundated with applications of every sort and are learning to work remotely.

Alternatives

There are alternatives and they should be considered alongside CBILS. It's also worth remembering that businesses need to be comfortable that they can repay the debt that they take.

Example alternatives may be:

- Factoring. Where a business borrows against the sales invoices which haven't yet been paid. There are several types of factoring companies including peer to peer lenders where a business can arrange financing on an invoice by invoice basis. We have seen some peer to peer lenders struggle to fund normal requirements as their network becomes more cautious.
- Stock financing. This is where a business could arrange a revolving loan based on the stock held in the business.
- Asset finance on buildings, equipment or vehicles.
- R&D financing where a loan could be raised on an expected receipt from an R&D tax claim
- Raising personal finance. This could be a loan or mortgage raised by a business owner and the funds introduced into the business.

Important: disclaimer

This information is prepared for general use to support and inform many people quickly. It was based on information available at the time of writing. The situation is changing fast and new updates may have already superseded this information. Guidance is being published in stages, so we are working with other accountants to try and make sensible interpretations of announcements about what is available.

Your personal circumstances are individual to you.

If you intend to rely on this information, please check the current Government advice, check with your professional adviser or contact us on insights@pcfo.co.uk to ensure that this remains relevant and is applicable to you