



GUIDANCE Note

Coronavirus Government Loans 18.05.20

COVID-19

This guidance includes further details on the Government financial support initiatives launched by the Chancellor to support businesses through the Coronavirus outbreak.

Below is a description of announcements to date about the Coronavirus Business Interruptions Loans Scheme and Small Business Grants system.

CBILS has been significantly expanded along with changes to the various scheme's features and eligibility criteria. The changes mean even more smaller businesses across the UK impacted by the coronavirus crisis can access the funding they need. Insufficient security is no longer a condition to access the scheme.

Importantly, access to the scheme has been opened up to those smaller businesses that would have previously met the requirements for a commercial facility but would not have been eligible for CBILS. This significantly increases the number of businesses eligible for the scheme. The expanded scheme will be offered by lenders from Friday 3 April 2020 and operational from Monday 6 April 2020.

Government has communicated that these changes should be retrospectively applied by lenders for any CBILS facilities offered since 23 March 2020. For any commercial (non-CBILS) facilities offered since the same date, providing the borrower meets the CBILS eligibility, lenders have been asked to bring these facilities onto CBILS wherever possible (e.g. where the lender is accredited to offer the same facility through CBILS) and changes retrospectively applied as necessary.

1. Small business grants

Responding to the coronavirus (Covid-19) pandemic, the government announced there would be support for small businesses and businesses in the retail, hospitality and leisure sectors. This small business coronavirus grant will take the form of two funding schemes:

- The Small Business Grant Fund – a one-off grant of £10,000 for eligible businesses to help meet their ongoing business costs
- Retail, Hospitality and Leisure Grant – a cash grant of up to £25,000 per property if you are eligible (businesses with a property that has a rateable value of over £15,000 and less than £51,000)

How to get the government's £10,000 cash grant for small businesses

Because grants are allocated per business property, a single business can receive multiple grants and may receive grants from separate local authorities.

Eligibility is based around rate relief. Those who qualify for Small Business Rate Relief (SBBR) or Rural Rate Relief will be able to get the funding.

The [Department for Business, Energy & Industrial Strategy](#) will be working with local authorities to outline the scheme and encourage local authorities to prepare.

However, once up-and-running, **your local authority should have contacted you rather than having to apply yourself.**

- Check whether you are entitled to the grant, using the [GOV UK checker tool](#).
- Reach out to your council if you think you're eligible, using the [GOV UK find your council tool](#).

For more information on the schemes, please click [here](#).

The coronavirus grant only applies to small business in England. Business rates in Scotland, Wales and Northern Ireland are set by their devolved administrations.

How do I get the £10,000 grant in Wales?

The Welsh package mirrors the offering in England. It provides a £10,000 grant to all businesses eligible for Small Business Rates Relief with a rateable value of £12,000 or less.

Is there any difference in Northern Ireland?

Rates will not be payable for the next three months on any business property and LPS are deferring issuing bills from April until June.

Top-up to local business grant funds scheme

A [discretionary fund](#) has been set up to accommodate certain small businesses in England previously outside the scope of the business grant funds scheme. This additional fund is aimed at small businesses with ongoing fixed property-related costs. Local authorities are being asked to prioritise businesses in shared spaces, regular market traders, small charity properties that would meet the criteria for Small Business Rates Relief, and bed and breakfasts that pay council tax rather than business rates.

Businesses must be small, under 50 employees, and they must also be able to demonstrate that they have seen a significant drop of income due to Coronavirus restriction measures. Local authorities may choose to make payments to other businesses based on local economic need.

The maximum grant will be £25,000. There will also be grants of £10,000. Local authorities will have discretion to make payments of any amount under £10,000. It will be for councils to adapt this approach to local circumstances.

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Hardship Loan Scheme: Contact your local authority about a hardships loan scheme, as many are setting them up for local residents, small business owners and the self-employed

2. Future Fund

The Future Fund will provide UK Government loans to UK-based companies ranging from £125,000 to £5 million, subject to at least equal match funding from private investors. The fund is open for applications from Wednesday 20 May 2020.

These convertible loans may be a suitable option for businesses that typically rely on equity investment and are unable to access other government business support programmes because they are either pre-revenue or pre-profit.

The Future Fund was developed by the UK Government and is being delivered by the British Business Bank.

3. Bounce Back Loan Scheme – Small Business

From 27th April small businesses benefit from a new fast-track finance scheme providing loans with a 100% government-backed guarantee for lenders. Small businesses can borrow between **£2,000** and **£50,000** and access the cash within days. The loans will be interest free for the first 12 months, and businesses can apply online through a short and simple form

The scheme has been designed to ensure that small firms who need vital cash injections to keep operating can get finance in a matter of days

No repayments will be due during the first 12 months.

The government will work with lenders to ensure loans delivered through this scheme are advanced as quickly as possible and agree a low standardised level of interest for the remaining period of the loan.

Although the length of the loan is up to six years, early repayment is allowed, without early repayment fees.

In the first instance, you should approach your own provider. You may also consider approaching other lenders if you are unable to access the finance you require.

You should approach a lender yourself, ideally via its website.

You will need to fill in a short application form online, which self-certifies that your business is eligible for a loan under BBLs.

If your business is eligible, it will be subject to appropriate customer fraud, Anti-Money Laundering (AML) and Know Your Customer (KYC) checks. Some state aid restrictions may apply to your application.

Note: There is high demand for finance through BBLs. Phone lines are likely to be busy and branches may not be able to handle enquiries in person.

The lender has the authority to decide whether to offer you finance.

Under the scheme, lenders are **not** permitted to:

- take any form of personal guarantee
- take recovery action over a borrower's personal assets (such as their main home or personal vehicle)

If the lender turns you down - If one lender turns you down, you can still approach other lenders within the scheme.

Your business must be able to self-declare to the lender that it:

- has been impacted by the coronavirus (COVID-19) pandemic

- was **not** a business in difficulty at 31 December 2019 (if it was, you must confirm your business complies with additional state aid restrictions under de minimis state aid rules)
- is engaged in trading or commercial activity in the UK and was established by 1 March 2020
- is **not** using the Coronavirus Business Interruption Loan Scheme (CBILS), the Coronavirus Large Business Interruption Loan Scheme (CLBILS) or the Bank of England's Covid Corporate Financing Facility Scheme (CCFF), unless the Bounce Back Loan will refinance the whole of the CBILS, CLBILS or CCFF facility
- is **not** in bankruptcy or liquidation or undergoing debt restructuring at the time it submits its application for finance
- derives more than 50% of its income from its trading activity (this requirement does not apply to charities or further-education colleges)
- is **not** in a restricted sector (see below)

Note: The above is not an exhaustive list – see our [Frequently asked questions](#) for more information.

Bounce Back Loans are available to businesses in all sectors, **except** the following:

- Credit institutions (falling within the remit of the Bank Recovery and Resolution Directive)
- Insurance companies
- Public-sector organisations
- State-funded primary and secondary schools

If you've already received a loan of up to £50,000 under CBILS and would like to transfer it into the Bounce Back Loan scheme, you can arrange this with your lender until 4 November 2020.

The full rules of the scheme and guidance on how to apply is available on the British Business Bank website [here](#).

4. Coronavirus Business Interruption Loan Scheme: loans up to £5m

A temporary Coronavirus Business Interruption Loan Scheme, delivered by the British Business Bank, launched to support primarily small and medium-sized businesses to access bank lending and overdrafts.

CBILS is available through the British Business Bank's 40+ accredited lenders, which are listed on the British Business Bank website [here](#).

Insufficient security is no longer a condition to access the scheme.

For all facilities, including those over £250,000, CBILS can now support lending to smaller businesses even where a lender considers there to be insufficient security, making more smaller businesses eligible to receive the Business Interruption Payment.

CBILS does not require personal guarantees for facilities under £250,000.

Personal guarantees may still be required, at a lender's discretion, for facilities above £250,000, but they exclude the Principal Private Residence (PPR) and recoveries under these guarantees are capped at a maximum of 20% of the outstanding balance of the CBILS facility after the proceeds of business assets have been applied.

If one lender turns you down, you can still approach other lenders within the scheme.

Access to the scheme has now been opened up to smaller businesses facing cashflow difficulties who previously would not have been eligible for CBILS because they did not meet the requirements for a standard commercial facility.

You may therefore consider re-contacting your lender if you have previously been unsuccessful in securing funding.

5. How does CBILS work?

In the first instance, businesses should approach their own provider – ideally via the lender’s website. They may also consider approaching other lenders if they are unable to access the finance they need.

CBILS decision making is fully delegated to the accredited lenders. Any queries from a business with an active or historic EFG facility, including guarantee fee collection or alterations to their repayment profile should raise them with their lender, and not with the British Business Bank.

The CBILS scheme is designed to support smaller businesses (SMEs) who don’t meet a lender’s normal lending requirements for a fully commercial loan or other facility, but who are considered viable in the longer-term.

Decision-making on whether you are eligible for CBILS is fully delegated to the 40+ accredited CBILS lenders. These lenders range from high-street banks, to challenger banks, asset-based lenders and smaller specialist local lenders.

Note: if the accredited lender can offer finance on normal commercial terms without the need to make use of the scheme, they will do so, but not in preference at more punitive rates.

The British Business Bank also advises:

- Consider applying via the lender’s website in the first instance. Telephone lines are likely to be busy and branches may have limited capacity to handle enquiries due to social distancing
- Consider the urgency of your need – it is possible that some businesses may be looking for regular longer-term finance rather than ‘emergency’ finance, and there may be other businesses with a more urgent need to speak with a lender

6. What does CBILS cover?

CBILS guarantees facilities up to a maximum of £5m available on repayment terms up to six years for term loans and asset finance. For overdrafts and invoice finance facilities, terms will be up to three years.

CBILS provides the lender with a government- backed partial (80%) guarantee against the outstanding facility balance.

There is no guarantee fee for SMEs to access the scheme. Lenders will pay a fee to access the scheme.

The Government will make a Business Interruption Payment to cover the first 12 months of interest payments and any lender-levied fees. You (the SME) will therefore benefit from no upfront costs and lower initial repayments.

The Government is removing the discretion of the lender to use the scheme for unsecured lending for facilities of £250,000 and under. For facilities above £250,000, the scheme requires the lender to establish a lack or absence of security prior to businesses using CBILS.

For loans over £250,000, personal guarantees will be limited to just 20% of any amount

outstanding on the CBILS lending after any other recoveries from business assets. Lenders were already prohibited from asking business owners to put their house on the line - Primary Residential Property (PPR) cannot be taken as security under the scheme and personal guarantees cannot be required for loans under £250,000.

Finance terms are from three months up to ten years for term loans and asset finance and up to three years for revolving facilities and invoice finance.

The scheme provides the **lender** with a government-backed guarantee against the outstanding facility balance, potentially enabling a 'no' credit decision from a lender to become a 'yes'. **Note – the borrower always remains 100% liable for the debt.**

7. What finance products are covered under CBILS?

This scheme supports a wide range of business finance products, including:

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

Note: Not every lender can provide every type of finance listed.

8. Who is eligible for CBILS?

To be eligible for support the small business must:

- Be UK based, with turnover of no more than £45 million per annum
- Have a borrowing proposal which, were it not for the COVID-19 pandemic, would be considered viable by the lender, and for which the lender believes the provision of finance will enable the business to trade out of any short-to-medium term difficulty.
- Self-certify that it has been adversely impacted by the coronavirus (COVID-19)
- Operate within an eligible industrial sector (a small number of industrial sectors are not eligible for support or subject to limitations – these do not include construction and hard FM works Smaller businesses (SMEs) from all sectors can apply for the full amount of the facility, up to a maximum of £5m.
- If the lender can offer finance on normal commercial terms without the need to make use of the scheme, they will do so.
- Not have been classed as a “business in difficulty” on 31 December 2019, if applying to borrow £30,000 or more.

CBILS are available to businesses in all sectors, **except** the following:

- Credit institutions (falling within the remit of the Bank Recovery and Resolution Directive)
- Insurance companies
- Public-sector organisations
- State-funded primary and secondary schools

Please review CBILS quick eligibility checklist [here](#)

9. What information will I need to provide?

When you apply for a business loan, most lenders will ask you for the following:

DETAILS OF THE LOAN

- The amount you would like to borrow
- What the money is for — the lender will check that it's a suitable business purpose and the right type of finance for your needs
- The period over which you will make the repayments — the lender will assess whether the loan is affordable for you

SUPPORTING DOCUMENTS

You will need to provide certain documents when you apply for a CBILS-backed facility. These requirements vary from lender to lender, but are likely to include:

- Management accounts
- Business plan
- Historic accounts
- Details of assets

If you do not have everything listed here, a CBILS loan could still be an option to provide finance to support your business.

Note: For many customers approaching their existing lenders for a smaller facility, the process may be automated and therefore may not require the same level of documentation.

10. What is a 'business in difficulty'?

A "business in difficulty" is one that, as at 31 December 2019, had:

- accumulated losses of more than half of its subscribed share capital for limited companies, **or** for unlimited liability companies its capital; **or**
- started, or had fulfilled the criteria to be put into, collective insolvency proceedings; **or**
- previously received rescue aid that was yet to be reimbursed (or, in the case of a guarantee, terminated); **or**
- received restructuring aid, and was still under a restructuring plan; **or**
- (where it does not meet the SME criteria) has fallen below solvency ratios for the previous two years.

What does the accumulated losses criteria for a "business in difficulty" mean?

The CBILS definition of a "business in difficulty" includes businesses that have accumulated losses that are greater than half of their subscribed share capital, as at 31 December 2019.

For a limited liability company, this means having accumulated losses greater than half of its capital, if deducting accumulated losses from the company's reserves leads to a negative amount that exceeds half of the company's subscribed share capital.

These criteria do not apply to SMEs that, on 31 December 2019, had existed for less than three years. That means that certain fast-growth businesses may **not** be eligible for the scheme (unless they are less than three years old).

What are "collective insolvency proceedings"?

These are as defined by the Commission Regulation (EU) 2015/848 of 20 May 2015, rather than the definition of "insolvency proceedings" in the Insolvency Act 1986. This means:

- winding-up by, or subject to the supervision of, a court
- creditors' voluntary winding-up (with confirmation by the court)
- administration
- voluntary arrangements under insolvency legislation
- bankruptcy or sequestration

The “voluntary arrangements” above include company and individual voluntary arrangements.

Receiverships, members' voluntary liquidations and schemes of arrangement (under Part 26 of the Companies Act 2006) are **not** included.

What does “fulfils the criteria under its domestic law” mean in collective insolvency proceedings?

There is no official guidance from the European Commission on what this means. However, if a borrower is the subject of any of the proceedings listed above, or is not subject to any insolvency proceedings, but meets the criteria above, the borrower should be categorised as a “business in difficulty”.

What defines rescue aid or restructuring aid?

Rescue or restructuring aid is normally the subject of a specific state aid approval from the European Commission. For the avoidance of doubt, aid provided under the Enterprise Finance Guarantee Scheme is **not** rescue or restructuring aid.

What criteria must a company that is not an SME (because it has 250 or more employees) meet to not be considered as “in difficulty”?

For the two years prior to 31 December 2019, the book debt to equity ratio was greater than 7,5; and its EBITDA interest coverage ratio was below 1.0. A business must meet both to be classed as “in difficulty”.

SMEs are **not** required to meet these solvency ratios.

Which companies can be classed as SMEs for the “business in difficulty” definition?

This can include self-employed people; family businesses; and partnerships or associations regularly engaged in an economic activity. It also includes any micro, small or medium-sized business that employs fewer than 250 people and has an annual turnover of no more than £45 million.

Should the tests for a “business in difficulty” be on an individual or group basis?

You should calculate these on a group basis.

Are there any exceptions to the accumulated losses test?

The accumulated losses test does **not** apply if the business is an SME that, on 31 December 2019, had existed for less than three years; or is a trust or unincorporated association.

Are there any exceptions to a business having to be a “business in difficulty”?

For facilities under £30,000, the “business in difficulty” test does not apply as a facility of this level is considered to involve a de minimis amount of state aid.

11. Can I still get CBILS if I am a start up?

Potentially, if your business activity is primarily UK-based. For early stage businesses in their first two years of trading, the British Business Bank's Start Up Loans programme (loans £500 to £25,000 at 6% p.a. interest) may be more suitable.

Visit www.startuploans.co.uk for more information.

12. Do I need to evidence that I have a viable business?

Yes. You must show in your borrowing proposal that were it not for the COVID-19 pandemic, your business would be considered viable by the lender, and for which the lender believes the provision of finance will enable your business to trade out of any short-to-medium term difficulty.

13. Will the CBILS funds run out so I can't access the scheme?

No. Government has confirmed that the amount of funding available under the scheme will be demand-led. Therefore there is no immediate need to approach a lender if you do not need finance in the short-term. The scheme will initially run for six months.

14. Are sole traders/freelancers eligible?

Yes, as long as the business activity is operated through a business account. The scheme is open to sole traders, freelancers, body corporates, limited partnerships, limited liability partnerships or other legal entity carry out a business activity in the United Kingdom, with annual turnover of up to £45m, operating in all sectors.

The business must generate more than 50% of its turnover from trading activity.

15. Can Lenders take a Personal Guarantee to cover the 20% loss that the Bank will make?

No, if a lender makes a claim on the CBILS guarantee it will be after the lender has completed its normal recovery procedures (including realisation of any Personal Guarantees). The CBILS guarantee covers 80% of the lenders post recoveries claim. The lender will always suffer a 20% loss when claiming on the CBILS guarantee.

Loans under £250,000 should never require a personal guarantee.

16. I am getting other kinds of aid to help respond to COVID-19 - can I still get a loan?

Yes. The eligibility criteria for CBILS does not require Lenders to take into account the other forms of government support that SMEs may be benefiting from e.g. business rate reliefs or grants unrelated to the CBIL scheme.

17. Coronavirus Large Business Interruption Loan Scheme (CLBILS)

The **Coronavirus Large Business Interruption Loan Scheme (CLBILS)** will ensure that more firms are able to benefit from government-backed support during this difficult time. It will provide a government guarantee of 80% to enable banks listed on the British Business Bank website to lend to:

You can find more information [here](#).

- all viable businesses with turnover of more than £45m will be able to apply for government-backed support

- businesses with turnover of more than £250 million can borrow up to £50 million from lenders
- businesses with a turnover of more than £45 million will now be able to apply for up to £25 million of finance, and up to £200 million for firms with a turnover of more than £250 million.
- Borrowers will be asked to agree to not pay dividends and to exercise restraint on senior pay

This will give banks the confidence to lend to more businesses which are impacted by coronavirus but which they would not lend to without CLBILS. Loans backed by a guarantee under CLBILS will be offered at commercial rates of interest.

18. COVID-19 Corporate Financing Facility

Under the new Covid-19 Corporate Financing Facility, the Bank of England will buy short term debt from larger companies through commercial paper - an unsecured, short-term debt instrument issued by a company.

Companies - and their finance subsidiaries - that make a material contribution to the UK economy are able to participate in the facility. Companies must do this via a bank

In practice, firms that meet this requirement would normally be: UK incorporated companies, including those with foreign-incorporated parents and with a genuine business in the UK; companies with significant employment in the UK; firms with their headquarters in the UK. Banks will also consider whether the company generates significant revenues in the UK, serves a large number of customers in the UK or has a number of operating sites in the UK.

The facility is open to firms that can demonstrate they were in sound financial health prior to the shock, allowing the Bank to look through temporary impacts on firms' balance sheets and cash flows from the shock itself. This means companies that had a short or long-term rating of investment grade, as at 1 March 2020, or equivalent.

Some entities are beyond the scope of this scheme, e.g. other bank and public sector authorities and those majority owned by public sector.

Those looking to utilise this scheme must have or obtain the required investment grade rating required (investment grade means a short-term rating of A3/P3/F3/R3 or above, or a long-term rating of BBB-/Baa3/BBB-/BBB low or above by at least one of the major credit ratings agencies: S&P, Moody's, Fitch or DBRS Morningstar).

If firms do not have an existing credit rating from the major credit ratings agencies, the Scheme encourages them to speak to their bank in the first instance. If that bank's advice is that the firm was viewed internally as equivalent to investment grade as at 1 March 2020, then the scheme suggests contacting the bank on CCFFeligibleissuers@bankofengland.co.uk to discuss your potential eligibility.

The Bank will then make an assessment of whether you can be deemed as equivalent to having a public investment grade rating. This assessment will draw on a range of information, including the range of banks' internal ratings across all of a firm's commercial bank counterparties. A firm will need to be rated consistently by its banks as investment grade in order to be deemed equivalent to having a public investment grade rating.

The Bank of England currently envisage accepting the following standard rating agency products as suitable evidence of investment grade credit quality.

- Moody's Investor Services:
 - Long and short term public corporate credit ratings

- (Private) 'Indicative ratings' at a recent point-in-time (for those approaching CRAs for the first time)
- Standard & Poor's Ratings Services:
 - Long and short term public corporate credit ratings
 - 'Credit Assessments' (CAs) at a recent point-in-time (for those approaching CRAs for the first time)
- Fitch
 - Long and short term public corporate credit ratings
 - (Private) Credit opinion at a recent point-in-time (for those approaching CRAs for the first time). A form of Fitch 'credit opinion' incorporating a rating rationale would be preferred, if available.
- DBRS Morningstar
 - Point in time private credit assessment (for those approaching CRAs for the first time)

The names of issuers and securities purchased or eligible will not be made public.

The Bank of England requires companies that participate in the facility to sign a confidentiality agreement with the Bank.

The minimum size of an individual security that the Fund will purchase from an individual participant retail bank is £1 million nominal. The Bank requires offers to be rounded to the closest £0.1 million.

The facility will offer financing on terms comparable to those prevailing in markets in the period before the Covid-19 economic shock.

This will support companies which are fundamentally strong, but have been affected by a short-term funding squeeze, enabling them to continue financing their short-term liabilities. It will also support corporate finance markets overall and ease the supply of credit to all firms.

Further guidance can be found here:

<https://www.bankofengland.co.uk/news/2020/march/the-covid-corporate-financing-facility>

The Institute of Chartered Accountants in England and Wales (ICAEW) has **published guidance** on preparing a strong loan application for a loan.

Guidance on cash-flow and financial planning can be found here <https://www.icaew.com/coronavirus/help-for-business/cash-flow-and-forecasting>

<https://thebusinessfinanceguide.co.uk/>



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