

# COVID-19 Help Guide

An overview to SME Support Packages

As of Date: 1 April 2020



In response to the COVID-19 outbreak in the UK, the UK Government announced a range of support packages for UK SMEs during the 2020 Budget to provide financial assistance to help businesses trade through the current period of uncertainty, disruption and financial pressures caused by COVID-19.

A lot of information has been released surrounding government assistance during the COVID-19 pandemic and this paper will provide an overview to the measures introduced including:

1. Coronavirus Business Interruption Loans Scheme
2. Coronavirus Job Retention Scheme
3. Coronavirus Self Employment Income Support Scheme
4. Coronavirus Business Support Grant Funding
5. VAT payment deferral
6. HMRC Time To Pay Arrangements
7. Payment on account deferral
8. Amendments to the Insolvency Act 1986 (Wrongful Trading)

The measures introduced are intended to be a proactive response in order to limit the adverse impacts of COVID-19 on small businesses.

Please note, the information presented within this Help Guide is at 1 April 2020 and the contents are not intended to be construed as financial, tax, employment law or insolvency advice.

We hope you find this information useful.

[www.hadriancapitalfinance.co.uk](http://www.hadriancapitalfinance.co.uk)  
[enquiries@hadriancapitalfinance.co.uk](mailto:enquiries@hadriancapitalfinance.co.uk)  
0191 268 2157

## How can I assess what financial pressures may be on the horizon?

This is a critical time for many small businesses in the UK and businesses need to have clarity and a real-time view on the current working capital and trading positions.

Robust cash flow modelling and forecasting is also vital for business survival.

If a business does not have a forecasting capability in-house, consider utilising an accountant to help assess cash flow on a short term (3 month), medium term (6 month) and longer term (12 month basis) to identify gaps in working capital.

If gaps are identified then it provides an opportunity, ahead of time, to put in place proactive intervention to alleviate future financial pressures (e.g. utilising government support schemes, financing, negotiating credit terms, payment holidays etc.)

Cash flow forecasts should also be stressed across several pessimistic scenarios to consider the impacts of adversity or disruption to key customers, distribution or suppliers in order to develop contingency plans.

### Key financial ratios:

Key financial ratios should be considered to assess the ability of the business to meet short-term obligations and also consider the overall capital structure to assess the ability to meet longer-term finance obligations:

- Short term liquidity:

- Current ratio (a ratio showing current assets to current liabilities and hence ability to meet short term creditor obligations). For ratios in excess of 1.0x this is positive but consider targeting a capital buffer to provide additional contingency (e.g. 25%)
- Quick ratio (an amendment to the current ratio but relevant for businesses with material stock balances particularly if stock is obsolete or slow moving). Ratios should be targeted at 1.0x but consider including capital additional buffers.

- Capital and long-term financing ratios:

- For businesses with high gearing ratios (debt relative to equity or Shareholders' Funds) consider using Debt-Service Coverage Ratios on a monthly basis to assess ability to meet long-term financing obligations (i.e. this calculated as the monthly operational free cash flow 'EBITDA' as a percentage of monthly capital and interest payment obligations)

### Anything else?

Speak to your trusted business advisors (accountants, commercial finance brokers, financial advisor, solicitors) to look for support. Don't be afraid to seek help.

Remain proactive, keep in regular contact with customers and suppliers; businesses within the supply chain are likely to be facing similar pressures. On this basis, early, constructive and transparent communication can help to manage expectations and identify a collective strategy to overcome trading disruptions caused by COVID-19.

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## 1. Coronavirus Business Interruption Loan Scheme "CBILS"

Details for the CBILS have been announced by the British Business Bank which has temporarily replaced the Enterprise Finance Guarantee "EFG". The full guidance can be found at: <https://www.british-business-bank.co.uk/ourpartners/coronavirus-business-interruption-loan-scheme-cbils-2/>

### 1.1 What is CBILS:

A scheme facilitated by the British Business Bank which provides financial support for small businesses across the UK that are losing revenue and/or facing cash flow difficulties as a direct result of COVID-19.

### 1.2 How does it work:

CBILS is operated by its delivery partners (comprising of over 40 accredited lenders) who are working to provide finance. The accredited lenders include:

- - High street banks
- - Challenger banks
- - Asset-based lenders
- - Smaller specialist local lenders

The funds administered by its delivery partners can provide loans of up to £5,000,000 in the form of:

- Term loans
- Overdrafts
- Invoice finance - Asset finance

CBILS provides the delivery partner (lender) with a government backed 80% guarantee for the loan.

### 1.3 What does a government-backed guarantee mean for the borrower/small business owner?

The government backed guarantee has been introduced to encourage lending to small businesses.

However, the borrower remains fully liable for the debt. In addition, the lender can only claim on the government-backed guarantee once all forms of recovery have been made and the 80% guarantee is based on the outstanding amounts (capital, interest and fees) that the lender is unable to recover.

The CBILS guarantee is therefore claimed by the lender following (subject to security required):

- - Recovery via charge/debenture;
- - Recovery via insolvency procedure; and
- - Recovery via personal guarantees.

The lender has to demonstrate that all forms of recovery have been made and follow their normal collections/recovery processes.

There has been backlash by business owners in response to personal guarantees being required by lenders under CBILS which means the personal assets of business owners may be at risk under the scheme.

In response, the Big Four banks have announced that they will **not** take personal guarantees as security for lending below £250,000 under CBILS.

### 1.4 What is a personal guarantee and what does it mean?

Personal guarantees are a common form of security taken by lenders when providing loans to small businesses (operating in a Limited Company or Limited Liability Partnership legal structure). A personal guarantee is given by a guarantor (usually the Director(s) or shareholders) as additional security for the lender in order to secure the loan for the small business.

By providing a personal guarantee, the guarantor is providing the lender with recourse to his/her personal estate should the small business fail to keep up with loan repayments and/or the lender is unable to recover outstanding obligations from the small business; placing personal assets at risk (and could lead to personal bankruptcy if the guarantor is unable to fulfil the recovery).

### 1.5 What further details have been released for CBILS:

The operation of CBILS varies according to each delivery partner but the overriding specifications for CBILS are shown in Table 1.

**Table 1: CBILS Specifications**

COVID-19 Overview of SME Support

Aspect	Detail
Delivery partners	Scheme administered through a range of over 40 accredited lenders
Operation	CBILS provides the lender with an 80% government-backed guarantee against the outstanding facility balance (once all forms of recovery are exhausted)
Types of loans	Term loans Overdrafts Invoice Finance Asset Finance
Facility sizes and security	<p>CBILS are available from £25,001 up to £5 million:</p> <ul style="list-style-type: none"> <li>• - If a lender can offer finance on normal commercial terms, then it will do so.</li> <li>• - £25,001-£100,000(unsecured–short form guarantee)</li> <li>• - £100,001 - £250,000 (secured by debenture and short form guarantee)</li> <li>• - £250,001+ (secured with a personal guarantee, debenture and tangible security)</li> <li>• - Primary residential property cannot be taken as security under the scheme</li> </ul> <p>The Big Four banks have agreed that they will not take personal guarantees as security for lending below £250,000 (effective 26/03/2020)</p>
Loan term	<ul style="list-style-type: none"> <li>- Capital and interest repayment</li> <li>- Terms loans and asset finance (up to six years)</li> <li>- Overdrafts and invoice finance (up to three years)</li> </ul>
Interest	- No interest payments for 12 months; the Government will make a Business Interruption Payment to cover the first 12 months of interest and any lender-levied charges
Fees	<ul style="list-style-type: none"> <li>- No arrangement fees - No security fees</li> <li>- No guarantee fees</li> </ul>

	- Indications that loans are limited to a maximum of 25% of 2019 turnover or double the annual wage bill, whichever is greater
Eligibility	<p>CBILS available for those businesses:</p> <ul style="list-style-type: none"> <li>- UK based SME experiencing lost or deferred revenues, leading to disruptions in cashflow and needs funding</li> <li>- Business must demonstrate how COVID-19 has affected business and what steps have been taken by the business to alleviate cash flow issues (e.g. reduced hours, cost cutting, furlough)</li> <li>- Business must have a borrowing proposal which, were it not for the COVID-19 pandemic, would be considered viable by the lender, and which the lender believes the provision of finance will enable the business to trade out of any short-to-medium term difficulty</li> </ul>
Application details	<ul style="list-style-type: none"> <li>- Management Information to the end of 2019</li> <li>- 2017, 2018 and 2019 accounts</li> <li>- Provide a minimum of 12 months forecasts showing the impact on the business. This will be used to explain the amount of loan being requested and demonstrate affordability</li> <li>- Details of latest payroll e.g. breakdown of monthly costings</li> <li>- Three months latest business bank statements</li> <li>- Explanation of how the funds will be used</li> </ul>

### 1.6 How do I apply?

There are a number of ways you can apply for a CBILS facility and here are a few you could consider:

- Speak to your commercial finance broker (if you don't have one, then contact NACFB <https://www.nacfb.org/> or FIBA <https://www.fiba.org.uk/>).
- Speak to your accountant.
- Speak to your financial advisor.
- You could also check to see whether your bank is listed as a CBILS delivery partner and to get in touch with your Bank Manager (you can check whether your bank is a CBILS delivery partner by [clicking here](#) – please note you'll be redirected to the British Business Bank website).

### 1.7 How does CBILS compare to the EFG?

The Enterprise Finance Guarantee "EFG" is temporarily being replaced by the CBILS and historically has operated in a similar way to CBILS except for:

- Lending was to borrowers considered 'outside of credit appetite' or where the borrower lacked suitable security in order to encourage lenders to provide credit to borrowers who were otherwise unable to obtain funding.
- The government-backed guarantee was 75%.
- There was an annual surcharge (paid quarterly) on the borrower to access the scheme of 2%.
- Lenders could only claim on the EFG once they had demonstrated all usual forms of recovery had been exhausted (which includes recovery via charge/debenture/insolvency procedure/personal guarantee).

## 2. Coronavirus Job Retention Scheme "CJRS"

The full guidance can be found at: <https://www.gov.uk/guidance/claim-for-wage-costs-through-the-coronavirus-job-retention-scheme#employees-you-can-claim-for>

### 2.1 What is it?

The Coronavirus Job Retention Scheme "CJRS" is a temporary measure and has been introduced to help employers retain employees (rather than laying them off) during periods of disruption and uncertainty caused by COVID-19.

All UK employers with a PAYE scheme can access support to continue to pay part of their employees' salary.

### 2.2 How does it work?

CJRS applies to employees who have been asked to stop working, but who are being kept on the payroll i.e. "furloughed workers".

HMRC will reimburse 80% the wages, up to £2,500 per month and this is to safeguard workers from being made redundant. The Employer can also claim for the associated Employer National Insurance Contributions and minimum automatic enrolment employer pension contributions on the furloughed wage.

The Scheme will cover the cost of wages backdated to 1 March 2020 and is initially open for 3 months (ceases on 31 May 2020) although it may be extended if necessary.

### 2.3 Who is eligible?

Furloughed employees must have been on the PAYE payroll on 28 February 2020, and can be on any type of contract, including:

- - Full time employees
- - Part time employees
- - Employees on agency contracts
- - Employees on flexible or zero-hour contracts

To be eligible for the subsidy, when on furlough, the employee cannot undertake work for or on behalf of the organisation; this includes providing services or generating revenue.

An employer can submit one claim at least every three weeks (which is the minimum length an employee can be furloughed for). Once a claim has been made to HMRC, a payment is made by BACS payment to a UK bank account.

An employee can be furloughed for intermittent periods (e.g. furloughed for three weeks and then return to work for a week and then furloughed again for three weeks etc.).

### 2.4 What do I need to do to furlough an employee under the CJRS?

All furlough claims are to be made on the HMRC portal (which is scheduled to be in operation by the end of April 2020).



You will need the following information to make a claim:

- - Your PAYE number
- - The number of employees being furloughed
- - The claim period (start and end date)
- - The amount claimed (per the minimum length of furloughing of 3 weeks)
- - Your bank account number and sort code
- - Your contact name
- - Your phone number

## **2.5 What does this mean for my immediate cashflow?**

Payroll is paid by the employer as per the usual process and a furlough payment is then paid to employers by HMRC following a furlough claim under CJRS.

Indications are that HMRC will take 7/10 working days for a payment to be processed following submission on the HMRC portal (due to be live at the end of April 2020).

On this basis, the first furlough claims are anticipated to be received in early May 2020.

We understand a number of banks have been informed to provide funding in respect of furlough claims (with minimal/no fees/interest).

## **2.6 How does this impact other taxes?**

All payments made by HMRC to an employer must be included as income in the business's calculation of its taxable profits for Income Tax and Corporation Tax purposes.

## **2.7 Other considerations**

Other considerations relevant for CRJS:

- - Directors can furlough themselves and claim 80% of their pay (salary not dividends).
- - Employees can be furloughed part way through a month (and a pro rata claim under CJRS can be made).
- - The claim should include basic pay only (fees, commissions and bonuses should be excluded).
- - Employers can elect to top up the extra 20% to employees.
- - You can pay staff more than £2,500 per month but an employer will only be able to claim up to 80% of £2,500 under CJRS.

### 3. Coronavirus Self Employment Income Support Scheme "SEISS"

The full guidance can be found at: <https://www.gov.uk/guidance/claim-a-grant-through-the-coronavirus-covid-19-self-employment-income-support-scheme>

#### 3.1 What is it?

The Coronavirus Self Employment Income Support Scheme "SEISS" is a Government support package designed to help self-employed people where their income has been adversely disrupted by COVID-19.

#### 3.2 How does it work?

The SEISS will allow an eligible applicant to claim a taxable grant worth 80% of their trading profits up to a maximum of £2,500 per month for the next 3 months (which may be extended).

A self-employed individual or a member of a partnership can apply (i.e. unincorporated small businesses) and if:

- - Income Tax Self-Assessment tax return has been submitted for 2018-19
- - Traded in the tax year 2019-20
- - Are trading when the application is made, or would be except for COVID-19
- - Intend to continue to trade in the tax year 2020-21
- - Have lost trading/partnership trading profits due to COVID-19

The self-employed trading profits must also be less than £50,000 and more than half of the individual's income should come from self-employment. This is determined by the following tests (one of which must be true):

1. 1) Having trading profits/partnership trading profits in 2018-19 of less than £50,000 and these profits constitute more than half of your total taxable income; or
2. 2) Having average trading profits in 2016-17, 2017-18 and 2018-19 of less than £50,000 and these profits constitute more than half of your average taxable income in the same period.

HMRC will only calculate the taxable average income based on the period of trade (if the individual started trading between 2016-19).

#### 3.3 How much taxable grant is available?

A self-employed individual or member of a partnership will receive 80% of the average profits from the tax years (where applicable):

- - 2016 to 2017
- - 2017 to 2018
- - 2018 to 2019

### **3.4 How to apply?**

Self-employed individuals or member of partnerships cannot apply for this scheme yet. HMRC will contact eligible individuals or members and they will receive an invitation to apply online.

After an application has been made, HMRC will contact the individual to confirm whether they are eligible for the grant and how much grant is available.

It is it likely that eligible individuals will not get paid under SEISS until June 2020.

## 4. Coronavirus Business Support Grant Funding "CBSGF"

The full guidance can be found at: <https://www.gov.uk/government/publications/coronavirus-covid-19-guidance-on-business-support-grant-funding>

### 4.1 What is it?

The Coronavirus Business Support Grant Funding "CBSGF" is an additional support package for businesses operating in the retail, hospitality and leisure sectors.

With social intervention measures announced by the UK Government (including lockdown and social distancing and gathering guidelines) businesses operating in these sectors are likely to be disrupted significantly due to the impacts of COVID-19.

A support package has therefore been announced for small businesses with premises and operating in the retail, hospitality and leisure sectors.

There are two grants potentially available for these small businesses:

### 1) 2) 4.2

The Small Business Grants Fund "SBGF"

The Retail, Hospitality and Leisure Grant Fund "RHLGF"

### How does it work?

The grants are administered by Local Authorities as follows:

- - Under the SBGF all businesses in England who currently receive Small Business Rates Relief on premises will receive a payment from the Local Authority of £10,000
- - Under the RHLGF all businesses in England in receipt of the Expanded Retail Discount with a rateable value of less than £51,000 will receive the following payments based on the associated rateable value:
  - Small businesses with a property that has a rateable value up to £15,000 will receive a grant of £10,000;
  - Small businesses with a property that has a rateable value between £15,001 and £51,000 will receive a grant of £25,000; or
  - Small businesses with a property that has a rateable value of over £51,001 are not eligible for the RHLGF.

For a business to be eligible it must have been on 11 March 2020 eligible for the Small Business Rates Relief or Expanded Retail Discount Relief.

### 4.3 When will the payments be made?

It is widely anticipated that the payments received from the Local Authorities under either the SBGF or RHLGF will be paid towards the end of April 2020.

## 5. VAT payment deferral

The full guidance can be found at: <https://www.gov.uk/guidance/deferral-of-vat-payments-due-to-coronavirus-covid-19>

### 5.1 What is it?

Businesses who are experiencing financial difficulties and cash flow pressures due to COVID-19 can defer VAT payments.

If a VAT payment is due by a business between now and 30<sup>th</sup> June 2020, the business can choose to defer this payment by three months.

By deferring the VAT payment, HMRC will not penalise with interest or penalties. Unpaid VAT will need to be paid by April 2021.

### 5.2 How to apply?

This is automatic so an applicant doesn't need to make a claim to HMRC. Instead, a business should just not make the VAT payment in order to take advantage of the deferral.

If you normally pay by Direct Debit then you should speak to your bank to cancel the Direct Debit (or cancel online if you're registered for online banking).

## 6. HMRC Time To Pay Arrangements

The full guidance can be found at: <https://www.gov.uk/government/publications/guidance-to-employers-and-businesses-about-covid-19/covid-19-support-for-businesses#support-for-businesses-through-the-coronavirus-job-retention-scheme>

### 6.1 What is it?

All businesses and self-employed people in financial distress, and with outstanding tax liabilities may be eligible to receive support with their tax affairs through HMRC's Time To Pay service.

The arrangements are agreed with businesses on a case by case basis and are tailored to individual circumstances and liabilities. Businesses should only contact HMRC if a tax payment has been missed or the business will miss its next tax payment.

### 6.2 How to apply?

If a business or self-employed individual has missed a tax payment or might miss the next payment due to COVID-19, the applicant should call HMRC's dedicated helpline: 0800 024 1222

## **7. Amendments to the Insolvency Act 1986 (Wrongful Trading)**

### **7.1 What is it?**

A temporary suspension of “wrongful trading laws” has been announced which will stop company directors from being prosecuted for keeping a business trading when it is technically insolvent or doesn’t have a reasonable prospect of survival.

The idea of this measure is to remove the fear company directors might have of trading through such turbulent and uncertain times to give them breathing space; and a chance to “bounce back” (which may or may not give an opportunity to put in place the support packages discussed in this Help Guide).

The measures will be effective from 1 March 2020 and will give company directors three months to keep their businesses going without the fear of personal liability being incurred.

Under the Insolvency Act 1986, the board of directors have a strict duty to announce a cessation of trading if the company is insolvent, or if the insolvency cannot be avoided in the near future.



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