

On 11th March, our Chancellor, Rishi Sunak, announced in his first budget (what a baptism of fire that was!) that there would be support for businesses in the form of government back funding called the Coronavirus Business Interruption Loan Scheme (CBILS) to the tune of £30bn. Last Monday, the level of support for this scheme was increased to £330bn by our Chancellor, which suggests that the Government are taking business support extremely seriously right now.

So what is CBILS?

<https://www.british-business-bank.co.uk/ourpartners/coronavirus-business-interruption-loan-scheme-cbils/>

This scheme effectively assists the banks and financial institutions in being able to lend to smaller businesses more confidently by having the Government guarantee 80% of the loan. It's important to point out that ultimately, the borrower is liable for 100% of the debt, but in the event that the borrower can't repay in the worst case scenario, the Government cover the lion's share of the amount owed.

This gives the banks more confidence to lend as effectively the Government is providing security for the loan and as banks and financial institutions lend based on risk, this massively derisks the position for the bank, which means that it's easier for them to say yes, rather than no.

This scheme covers the following types of borrowing:

- Loans
- Overdrafts
- Invoice finance facilities
- Asset finance facilities

To be eligible for CBILS, the following criteria must be met:

- You must be a UK based company, with an annual turnover of no more than £45 million per annum
- Operate within an eligible sector (NB: A small number of sectors or not eligible, details on the British Bank link below, but the majority of my network will be covered)
- Be able to confirm that you have not received de minimis state aid beyond 200,000 euros over the current and previous two fiscal years.
- Be unable to meet a lender's normal lending requirements for a fully commercial loan or other facility, but would be considered viable in the longer-term.
- Maximum loan value is £5m (up from the original amount offered during the budget of £1.2m).

It's important to note that full eligibility criteria will be published when the scheme goes live on Monday morning.

Should I consider taking a CBILS loan?

This is something I want to cover off here. Whilst some people welcome the help offered by the Chancellor (I am one of them) others are understandably reluctant to take on a loan or other type of finance in their business right now. This I totally understand, and having spoken to many Agency owners this week I get the reasons why you may be hesitant.

Some Agencies haven't been affected by Coronavirus to date, some have significant cash reserves, some have business models that enable them to flex resource up and down.

If you are not in one of the above situations you should consider this Government support. One Agency owner summed this up perfectly when we spoke about this, as she said "It's taken me 10 years to build my Agency, Team and Culture to this point and as much as I have some reluctance to take on debt, I would rather have the security of some cash behind me right now to protect my team and provide continuity to clients. It would take me longer and cost more to rebuild again from scratch."

Even if you are in a place where you haven't been affected yet, have reserves and can flex your team size it would still be worth having a conversation with your bank about the level of help that could be offered - could be a good insurance policy as the situation could worsen. In my experience, project based agencies will be impacted further potentially than those with retainers or high monthly recurring revenue.

Here is a link to the full list of banks and financial institutions who are supporting this scheme.

<https://www.british-business-bank.co.uk/ourpartners/coronavirus-business-interruption-loan-scheme-cbils/accredited-lenders/>

These loans are going to be hard to get right?

Logically you would think that, and I had some cynicism initially about how this would work. If you've ever tried to get bank finance before, then you will know what I mean. The bank managers are usually working hard to help you out but they are often hampered by internal bureaucracy and red tape from centralised underwriting teams who seem to have a lot of rules and regulations. Once you have sent them every available finance report under the sun, they then come back and ask for more.....or say you can't have the finance!

You may also be thinking, isn't there going to be a lot of demand and how will the banks cope?

I think in terms of resource they have pushed a lot of the bank's internal teams behind this to make sure that it happens. I also believe that they are going to shortcut the process massively to make these loans and facilities easily available.

I know the above because I have been speaking to banking contacts this week about how all this is going to work, and I left those conversations feeling confident that red tape will be cut and resource committed by the banks to help UK businesses and critically that a lot of the decision making process will be at the discretion of the bank manager - like the old days.

How to get into the mind of the bank manager?

If this support is something you are considering, you need to get into the mind of the bank manager to understand what they are looking for and make this an easy and quick decision for them.

One of the bank managers I spoke to said the following:

“What we are looking for mainly is that the business was sound before the CV-19 outbreak and that it will be again after this all settles down. I’d like to see prior years accounts, current year management accounts and a forecast that shows how you will be affected and how the business will bounce back after.”

With regards to the forecast, if it was me I would put together something like the below (this example is a very, very high level P&L forecast to illustrate what's needed to get through the CV-19 outbreak, you will need something more detailed) to reflect the potential worse case impact of the virus on the business and how it will be affected financially.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Sales	100	100	90	70	70	70	80	100	105	105	110	105
GP	90	90	81	63	63	63	72	90	95	95	99	95
O'Head	80	80	80	80	80	80	80	80	80	80	80	80
Profit	10	10	1	(17)	(17)	(17)	(8)	10	15	15	19	15

In this scenario above you will see that I have modelled a dip in trading over the next 10-12 weeks, as most analysts and the Government see this is having that level of impact on the economy. For example, the wages support offered for furloughed employees, is for a 3 month period. This may change of course.

In this example, the impact is a short loss making period in the agency which will enable you to keep your team fully employed and your key suppliers retained, ready for the upturn later this year.

The finance required will be somewhere between the losses during the next 12 weeks or the shortfall in revenue so circa £60k to £120k. Working with your FD and/or finance teams will help you determine at what level you need assistance.

I must stress here that it is important not to try and mislead the bank in anyway, and only use this support for the purpose of the loan as it was intended.

What other thoughts will the bank manager be having?

A banking contact helped me put together the list of questions to have covered off, before you approach your own bank manager:

1. Was your business profitable before the CV-19 outbreak
2. Was the business loss making but had been demonstrating strong turnaround performance/activities prior to the CV-19 outbreak
3. If in turnaround, was there a credible plan in place with defined, realistic actions/goals
4. Did your business as usual forecasts show continued and/or improving profitability
5. Did your business as usual forecasts show enough profit to generate sufficient cash to service additional borrowing
6. Were the key assumptions in your business as usual or turnaround forecast reasonable under normal trading conditions
7. Have there been any major changes within the business (other than CV-19) since the forecasts or last set of financial statements were prepared
8. Before CV-19 was there cash pressure in the business or was there legal action being taken against the company
9. Is there any reason why the impact of CV-19 would have a prolonged effect on your business
10. Can you demonstrate that you have a strong board/leadership team to help you weather the current storm

Summary

I've written this summary in case you are thinking of speaking to your bank manager or you already have done and would like some insight into how to make this a relatively pain free process. As usual, if you have any thoughts or questions please feel free to contact me.

Pete