

Accessing government support during COVID-19

There was a lot of excitement when the government announced the British Business Bank's Coronavirus Business Interruption Loan Scheme (CBILS) but now that we are starting to see how COVID-19 is affecting businesses how can you go about taking advantage of the scheme?

What is the scheme?

The first thing to understand is that the government won't actually be giving loans to businesses. CBILS is not about them lending money, it's about them providing support and a guarantee to lenders to encourage them to support businesses in these uncertain times.

The way to access the support is to apply to your bank for an overdraft or loan, just like normal. The government will cover the first 12 months of interest payments and any lender-levied fees. If the bank feels that they need more security to guarantee that loan they will then apply to the CBILS scheme on your behalf.

What do I need to do to apply?

In the first instance you should contact your bank manager and ask for help.

If you make an application it will be assessed in the same way as any other finance application; the banks should not be expected to give money away to businesses that they weren't able to support before COVID-19 came along.

So you'll need to lay out your business case, financial forecasts and provide a clear analysis of what you've done to help your business survive the disruption and what you expect to happen after we get back to "normal".

What will the bank want to see?

It can feel like a lot of hard work compiling all the information to make a successful funding application to the bank, but providing clear and detailed information and figures will speed up your application and improve the chances of getting the result you want.

1. Make your case

Making the case for assistance is similar to making a big sales pitch, but with a bit less spin. So the first part of the jigsaw is to illustrate that your business was sustainable, profitable and generating enough cash to survive before the disruption started. So you'll need to show:

- your latest Financial Accounts (even if these are draft accounts)
- the latest Management Accounts/ Information that you have available
- a brief summary of how your business was performing before COVID-19 came along; your recent successes, your future plans and any other comments that you'd like to make

2. What is the effect of the COVID-19 disruption?

Numbers

You should have an idea by now of the likely effects on your sales and ways you may be able to cut costs so the next step is to work out how this is different from what you normally expect to happen.

The bank will want to see the effect of this disruption on both your business' profits and cashflow. Cashflow is more important here as it is the factor that will dictate whether your business can survive or will struggle.

In order to show how the disruption is affecting your business you will want to give the bank a forecast of what your P&L is expected to look like over the next 3-6 months and a cashflow forecast which shows how this will filter through to your bank balance.

Words

Make a list of all the changes, both positive and negative that you expect so that it's easy for the bank to understand what you think is going to happen:

- Don't forget to say how long you think your business is going to be affected. This won't be the same for all businesses, but we are currently recommending looking at the next 3-6 months.
- What is the primary cause of the business disruption? This could be your suppliers, consumer demand, staff shortages, forced closure or something else.
- What do you expect your income to be during this period? How certain are you of this?
- What are the essential items that have to be paid and what costs can be deferred/ avoided?
- What are you doing to minimise these costs? Using the job retention scheme, asking for rent holidays, reducing salaries, asking for discounts, accessing insurance cover?

3. How much support do you need?

You need to be the one to work out how much finance you are asking for – don't just give the bank all your information and expect them to work it out for you!

The government has outlined a raft of support measures for businesses of all sizes. You should check out these options before you contact your bank in order to make sure you are looking at the most appropriate options. Explain to the bank which of the options do or don't fit your business.

In addition to the government measures if you have an existing loan with monthly repayments you may want to ask for a repayment holiday to help with cash flow.

HMRC's VAT deferral scheme and time to pay arrangements are easier to access than bank funding.

Give details of any cash reserves/ savings that may be available to the business should it be required.

4. The post COVID-19 world

This is all about the words again: you need to paint a picture of what your business and industry sector will look post the virus outbreak.

What is a reasonable level of trading that can be expected? Is it realistic to expect a return to previous levels? It is useful to forecast further into the future looking 6 or even 12 months after the disruption ends showing either a quick return to normal or amended where ongoing trading is expected to be positively or negatively impacted.

As with any bank funding prior to this one of the bank's key concerns is making sure that your business will be able to repay any loan using the cash from trading profits.

If you think your business will be negatively affected after the disruption ends this is the time to be looking at what changes you can make to turn this around.

If you are taking advantage of the opportunity to defer payment of your next 2020 VAT return then remember that the deadline for payment is 31st March 2021 - just 6 weeks before the payment date for any March 2021 VAT returns. This could cause some cashflow issues in the future that you need to be planning for.

What other options have you got should additional cash be required to assist the business either during the disruption or if the recovery takes longer than expected. In the worst case scenario what assets that could be sold / leveraged to inject cash into business?

5. Conclusions

Importantly, remember to be totally clear about how much funding you think you need, and make sure you have considered all of your options.

Not every business will need to resort to the Coronavirus Business Interruption Loan Scheme as it is there to support businesses who lack the security that banks would normally look for. With a healthy business and a clear understanding of how the disruption will affect trading you stand a good chance of successfully applying to your bank for assistance.

You should not now be asked for a personal guarantee if your application is for less than £250,000 of support, however there have been stories of banks setting uncompetitive interest rates. This reinforces the fact that you should always consider whether taking on a new loan is the best course of action for you and your business.

Finally don't forget to tell the bank what external advice you have taken at this time, and if in doubt don't delay asking for advice. Applications of this sort are time consuming and it can be difficult to detach yourself from the day to day running of the business at this challenging time in order to convey a clear picture of what is happening.

If you want to talk through the decisions that you're facing, or you want help putting together a cashflow forecast to see what the future looks like then give us a call and speak to Susie.