

COVID-19

UK Government Funding and other liquidity options

25 May 2020

As the impact of the COVID-19 coronavirus continues to play out, many entities need to rapidly assess their liquidity availability.

As part of that, the UK government has (in conjunction with, in some cases, the Bank of England) introduced a number of funding and support measures intended to address the potential impact of COVID-19 on businesses operating across a range of industries¹. There has now been announced the Coronavirus Job Retention Scheme, various business rate and grant reliefs, an extension of the HMRC time to pay tax arrangements, statutory sick pay relief for small and medium sized businesses and deferral of VAT payments.

A summary of the Covid Commercial Financing Facility, the Coronavirus Large Business Interruption Loan Scheme and the Coronavirus Business Interruption Loan Scheme initiatives announced to date is set out below.

Covid Commercial Financing Facility (the “CCFF”)²

The CCFF is a new facility to be set up by the Bank of England (the “BoE”) for the purpose of providing funding to businesses by purchasing commercial paper of up to one-year maturity, issued by firms making a material contribution to the UK economy. In order to be eligible, corporate issuers must have had an investment grade short-term (i.e. A-3 /P-3/F-3/R3) from at least one of Standard & Poor’s, Moody’s, Fitch or DBRS Morningstar) or long-term credit rating as at 1 March 2020 (i.e. prior to any possible impact of COVID-19 on firms’ short-term credit ratings).

Companies that do not currently issue commercial paper, but are capable of doing so, will in principle be eligible to utilise the CCFF provided they meet the eligibility criteria. In determining whether a company makes a “material contribution” to the UK’s economy, the BoE will consider several factors, including whether a company has significant employment or headquarters in the UK, whether it generates significant revenues, serves a large number of customers and/or has a number of operating sites in the UK.

Banks, building societies, insurance companies and other financial sector entities regulated by the BoE or the Financial Conduct Authority will not be eligible.

The CCFF opened for drawings on 23 March 2020 and is intended to be operational for an initial period of 12 months. The facility will offer financing on terms comparable to those prevailing in markets in the period before the COVID-19 economic shock. On 19 May 2020, HM Treasury announced that issuers participating in the CCFF may be required to commit to restraint on their capital distributions and on senior pay if: (a) an increase in an issuer’s CCFF limit, over and above that suggested by the issuer’s investment rating, is requested and approved; and/or (b) a CCFF transaction is entered which involves CP maturing on or after 19 May 2021.

Coronavirus Large Business Interruption Loan Scheme (the “CLBILS”)³

The CLBILS is a programme of financial support for businesses with turnover above £45 million which was launched on 20 April 2020 and updated on 26 May 2020. The CLBILS provides accredited finance providers with a government-backed partial guarantee of 80% of the outstanding balance of a facility to be issued to an eligible business, up to a maximum facility amount of the lower of 25% of turnover and £200 million. Interest will be payable by the business at normal commercial rates with facilities available for terms of between three months to three years.

In order to be eligible, a relevant business must, among other things: (a) be UK-based with turnover above £45 million; (b) not have accessed the CCFF; (c) be operating in any sector other than an excluded sector (which includes, banks and building societies, insurers and reinsurers (but not insurance brokers) and public-sector organisations); (d) have a borrowing proposal which the relevant finance provider: (i) would consider viable if not for the COVID-19 pandemic; and (ii) thinks will enable the relevant business to trade out of short to medium-term difficulty; and (e) self-certify that it has been negatively impacted by COVID-19. On 19 May 2020, HM Treasury announced a number of restrictions on borrowers taking advantage of the scheme, including: (a) a restriction on making dividend payments other than those that have already been declared; (b) a restriction on making share buybacks; and (c) a restriction on payment of cash bonuses, or awarding pay rises to senior management (with limited exceptions)..

CLBILS support is intended to assist with short-term cash flow difficulty and will therefore be available in respect of a range of financial products including term facilities, overdrafts, invoice finance facilities and asset finance facilities.

Coronavirus Business Interruption Loan Scheme (the “CBILS”)⁴

The CBILS is a programme of financial support for small businesses with a turnover of up to £45 million, which was first announced by the Chancellor at Budget 2020 on 11 March 2020, was first provided by the British Business Bank in late March 2020. An expanded version of scheme became operational on 6 April 2020. The CBILS is intended to facilitate the continued provision of finance to UK small businesses during the COVID-19 outbreak, and aims to do so by: (a) providing a participating, accredited finance provider⁵ with a government-backed partial guarantee against 80% of the outstanding balance of a facility to be issued to an eligible business (thus potentially enabling a ‘no’ credit decision from a lender to become a ‘yes’); and (b) covering the first 12 months of fees and interest payments due on such a facility on behalf of an eligible business.

It is important to note that the borrower will remain liable for 100% of the debt at all times (including all repayments of capital required during the first 12-months). CBILS support will be available in respect of a range of financial products, including term facilities, overdrafts, invoice finance facilities and asset finance facilities.

In order to be eligible, a relevant business must, among other things, be: (a) UK-based with turnover of no more than £45 million per annum; (b) operate within an eligible sector (a small number of industrial sectors are not eligible)⁶; and (c) generate more than 50% of turnover from trading activity. Insufficient security is no longer a condition to accessing the scheme and businesses that would have previously met the requirements for a commercial facility but were not eligible for CBILS may now be eligible.

Under the scheme: (a) no personal guarantees of any kind will be taken for facilities below £250,000; and (b) personal guarantees may be required for facilities above £250,000 (at the lender’s discretion), but: (i) 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; and (ii) principle private residences cannot be taken as security to support a personal guarantee or as security for a CBILS-backed facility.

The maximum value of a facility provided under the scheme will be £5 million, and finance terms will be available for up to six years for term/asset facilities, and up to three years for revolving/invoice facilities.

Conclusion

Whilst the various schemes and reliefs announced so far are helpful, for many entities there will remain liquidity issues, in particular for entities that have requirements and/or which are not eligible to access the CLBILS or the CBILS, and which do not meet the eligibility requirements of the more substantial CCF scheme. In those cases, availability of such liquidity will likely need to come from capital expenditure and cost reduction measures, as well as seeking support from shareholders and existing or new debt finance providers.

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Footnotes/Links

1. <https://www.gov.uk/government/publications/guidance-to-employers-and-businesses-about-covid-19/covid-19-support-for-businesses>
2. <https://www.bankofengland.co.uk/markets/market-notices/2020/ccff-market-notice-march-2020>
3. <https://www.businesssupport.gov.uk/coronavirus-large-business-interruption-loan-scheme/>
4. <https://www.british-business-bank.co.uk/ourpartners/coronavirus-business-interruption-loan-scheme-cbils-2/>
5. <https://www.british-business-bank.co.uk/ourpartners/coronavirus-business-interruption-loan-scheme-cbils/accredited-lenders/>
6. <https://www.british-business-bank.co.uk/wp-content/uploads/2020/03/Ineligible-and-Restricted-Eligibility-Sector-2017.pdf>