

To: Secretary of State

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Team: Economic Review Directorate

Date: 3 April 2020

THE IMPACT OF THE HMT CORONAVIRUS BUSINESS INTERRUPTION LOAN SCHEME CHANGES ON DCMS SECTORS WITHIN THE 'MISSING MIDDLE'.

Background

Following the initial steps HMT took to support businesses, DCMS identified a group of organisations within our sectors which are not captured by the initial economic support schemes, specifically the Coronavirus Corporate Finance Facility and Coronavirus Business Interruption Loan Scheme.

This 'missing middle' group covers businesses whose annual turnover is above the £45m revenue threshold but do not qualify for an investment grade credit rating. Initial analysis suggested that there were 300-600 DCMS sector organisations within this 'missing middle' that could not access the financial support they needed including prominent museums, theatre companies and sporting clubs.

In addition, our analysis highlighted difficulties in accessing the Coronavirus Business Interruption Loan Scheme for some small businesses.

New Changes To Coronavirus Loan Schemes

DCMS has been engaging with HMT on these issues and this morning HMT announced changes to the Coronavirus Business Interruption Loan Scheme. This includes:

- Extending the scheme to all viable small businesses affected by COVID-19, and not just those unable to secure regular commercial financing and
- Reiterating that of the 40 lenders identified by British Business Bank are prohibited from requesting personal guarantees on loans under £250,000. For loans above £250k, personal guarantees will be limited to 20% of any amount outstanding on the loan after any other recoveries from business assets

HMT also announced a new scheme, the Coronavirus Large Business Interruption Loan Scheme. The new scheme provides support to larger firms with an annual turnover of between £45 million and £500 million. The scheme mirrors CBILS, but has two key differences:

- Banks can lend up to £25 million; the limit under the smaller scheme is £5 million
- Loans backed by a guarantee under the new scheme will be offered at commercial rates of interest. This is different to the smaller scheme where the government will cover the first 12 months of interest payments.

Impact Of Changes On DCMS 'Missing Middle'

Initial analysis from the DCMS central analytical team is positive that the announced changes will reduce the number of organisations within the 'missing middle'. A very high level estimate would suggest that the measures will help to reduce the missing middle down from 300-600 to less than 100 organisations. However, that is still a large number of organisations outside of the HMT schemes. DCMS initial analysis suggests that some specific examples still within the missing middle could be large firms in the gambling sector and some major Premier League football clubs.

However, HMT do not expect the Coronavirus Large Business Interruption Loan Scheme to start until towards the end of April. This is likely to keep a number of DCMS stakeholders, eligible for the new scheme, at short term risk of financial stress.

DCMS will continue to work with our sectors to identify those that require financial support and liaise with HMT as necessary.

Immediate stakeholder views on HMT's announced changes

- The immediate reaction from DCMS stakeholders so far has been **broadly positive**.
- Officials in the **creative industries** teams have heard from the screen sector that new measures are welcome, with the UK Cinema Association in particular saying they were "really, really helpful".
- Stakeholders in the **tourism sector** have mainly welcomed today's announcement. Kate Nicholls, CEO of **UK Hospitality**, said that the expansion was helpful for the sector but reiterated that the scheme needs to be delivered urgently to avoid businesses being forced to close down over the next two weeks. She also flagged two issues around eligibility. Firstly, the £500m turnover threshold will exclude larger businesses in the sector. Secondly, if businesses have other security the banks are reportedly saying they are ineligible for CBILS if they have assets or a property to securitise against.
- The **British Beer and Pub Association** also reacted positively. They noted that the threshold for eligibility (turnover of £500m and above) would exclude larger businesses, but appreciated that HMT had to draw a line. Like UK Hospitality, they flagged speed of access to finance as a key issue because of cash flow issues in the sector.
- **Seasonal Businesses in Travel** (a group that mainly represents tour operators and the skiing sector) noted that the scheme will be positive provided that banks fully comply with new measures, but warned that this is a stop-gap against longer-term financial loss across the sector.
- The **arts sector** has previously made representations via a number of significant cultural sector organisations (**Royal Opera House, Southbank Centre, Ambassador Theatre Group**) for an intervention along the lines of the CBILS extension. We expect they will welcome today's news but have not yet heard their reaction - privately or publicly.

Officials will continue to monitor stakeholder responses to the announcement.

Ongoing concerns for DCMS sectors seeking financial support due to Covid-19

Mixed-Income Business Models:

- Certain DCMS sectors have mixed-income models which means that don't fit the criteria of the Coronavirus Business Interruption Loans Scheme. Specifically the requirement that organisations must generate at least 50% of their income from trading activities.
- DCMS is of the view that for certain sectors the criteria that organisations must generate at least 50% of their income from trading activities should be relaxed, by either lowering the threshold to 25% or completely exempting those organisations from that rule.

Lenders not adhering to the Coronavirus Business Interruption Loans Scheme process:

- DCMS sectors continue to report that the 40 identified lenders for the HMT Coronavirus scheme are not following the process strictly. Specifically lenders are preferring to offer alternative methods of finance, attaching unnecessarily high interest rates and seeking vastly reduced repayment periods, well below the 6 years stipulated in the guidance.

Requests for Personal Guarantees:

- The HMT announcement confirms that all loans above £250,000 will still require some form of personal guarantee which could exclude certain DCMS sector organisations. This presents issues for organisations that are run by Trusts.

Maximum Term Length:

- DCMS sector organisations have reported that the 6 year repayment period is too short due to their operating models (museums, sporting clubs) and believe a longer payment period (10-15 years) would be more suitable. Extending the term length of loans would enable more DCMS sector organisations to access the Coronavirus Business Interruption Loans.

Financial Assessment of Businesses:

- When assessing the viability of an organisation the Coronavirus Business Interruption Loan Scheme requires lenders to base an organisation's creditworthiness on the date of the application, rather than the organisation's financial position before the Covid-19 crisis, on 1 March 2020. This is not the case for businesses able to access the Coronavirus Corporate Finance Facility.
- For certain DCMS sectors (e.g. Tech & Museums), lenders are only assessing whether an organisation is profit generating. If lenders took into account; the levels of investment in previous year(s) and/or an advanced business case then the level of accessibility for certain DCMS sectors would improve.