

SUPPLEMENTARY AO ADVICE FOR CORONAVIRUS BUSINESS INTERRUPTION  
LOAN SCHEME



Department for  
Business, Energy  
& Industrial Strategy

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**SUPPLEMENTARY AO ADVICE: CORONAVIRUS BUSINESS INTERRUPTION  
LOAN SCHEME DELIVERED BY THE BRITISH BUSINESS BANK**

**Summary**

1. At Budget 2020, the Chancellor announced that a 'Coronavirus Business Interruption Loan Scheme' (CBILS) will temporarily replace the Enterprise Finance Guarantee (EFG), with several new scheme parameters. These were subsequently modified by an announcement on 17 March, increasing the loan size to £5m and introducing a six-month interest-free period.
2. The Chancellor then made further changes:
  - the scheme will now be open to all sectors including agriculture and fisheries, although at a reduced level to meet State Aid requirements;
  - the effective portfolio-level cap on losses will increase from 20% to 60% of portfolio value (75% portfolio cap x 80% guarantee);
  - the interest-free period for businesses will now be 12 months and will technically be classified as a grant equal to the value of the interest; and
  - the new State Aid framework requires that a premium must be paid in respect of the guarantee and this will be paid by the lenders.
3. For w/c 30<sup>th</sup> March the Chancellor plans further adjustments to the scheme:
  - Lenders will **no longer be permitted** to require a personal guarantee (PG) for loans or other facilities in the CBILS under £250,000; and
  - For loans over £250,000, lenders will be free to seek a PG. In event of default, the lender would first seek to recover it from business assets and then would look to the PG for **a maximum of 20% of the remaining debt**, claiming 80% of the residual loss under the guarantee agreement.
4. The previous AO assessment is attached for reference. We have not had the opportunity to update this in light of the latest proposed changes. We believe that these changes increase the likelihood and amount of losses that will be called on under the guarantee and therefore worsen the value for money of the scheme. This judgement on VfM is subject to the same limitations as the original assessment, that there has been insufficient time and data for a full analysis.

## SUPPLEMENTARY AO ADVICE FOR CORONAVIRUS BUSINESS INTERRUPTION LOAN SCHEME

- Annex A presents two illustrative examples based on the value of business assets that can be realised. The table sets out how the most recent adjustments to the CBIL scheme could impact on government finances. **This does not represent a full analysis.**
- Affordability risk can be managed on the basis that HMT have previously provided assurance that BEIS can make the necessary 2020/21 Budget adjustments for CBILS at Supplementary Estimates. This has not yet been formally confirmed or quantified.

### Need for a ministerial direction

- We have consulted the Treasury Officer of Accounts. Their advice is that if the scope of the intervention was now going beyond what was explicitly agreed in the direction that you received (in terms of quantum of spend or duration) then a second direction may be required. ToA's specific advice was:

*To the extent there are any material impacts, you may conclude that as long as those are flagged to ministers as part of the formal advice on these, and that advice notes that these changes do not remove the need for the existing direction, then a further formal direction is unnecessary.*

- The question is therefore whether you believe that there is a **material difference to what was already agreed** under the first direction. The first direction was based primarily on the risk of State aid approval and uncertainty around the overall value for money of the scheme.
- The position around State aid has not altered. The overall cap on the scheme remains at 60% and therefore the maximum liability notified to Parliament has not altered. The proposals increase the likely proportion of future bad debts that will fall to HMG. Consequently they most likely do lead to a further reduction in VfM although we cannot be sure as this effect may be offset by the positive impact of widening access to finance for a greater number of businesses, who would otherwise not have applied due to the requirement for Personal Guarantees.
- Based on this advice, we do not believe the changes materially alter the first direction and recommend that you do not need to request a second ministerial direction.

### Timing

- SoS would need to write to the Chancellor seeking consent for these changes **before 31<sup>st</sup> March** (and this request would need to be accepted and answered) in order to meet the target date for delivery of the changes to CBILS. On receiving consent you would need to email  in similar terms to the email you sent on the morning of 23 March, requesting the BBB to implement the change. We will provide a separate draft for this. If you agree an update to the C&AG and ToA will also be drafted informing them of changes to the scheme, but that you do not consider a second direction is required.

SUPPLEMENTARY AO ADVICE FOR CORONAVIRUS BUSINESS INTERRUPTION LOAN SCHEME

**ANNEX A – Illustrative examples of potential PG change impacts**

The table below illustrates the impact of the treatment of PGs under current rules (A) and the new rules (B) for a notional loan with a residual balance of £400K where the directors' personal assets available to cover the PG amount to £200K.

Scenario 1 – business assets realise £200K when sold. Under current rules, there is full recovery thanks to the PG and no claim. Under new rules, there is a claim of £128K (32% of loan value) against the government guarantee and the bank loses £32K as a bad debt.

Scenario 2 - business assets realise only £50K. Under current rules, the PG recovers the £200K maximum and there is a claim of £120K (30% of loan value) against the government guarantee. The bank suffers a loss of £30K. Under the new rules, there is a claim of £224K (56% of loan value) against the government guarantee and the bank loses £56K as a bad debt.

Scenarios for a loan with £400K outstanding at time of default	<u>Scenario 1A - current rules</u>	<u>Scenario 1B - new rules</u>	<u>Scenario 2A - current rules</u>	<u>Scenario 2B - new rules</u>
	PG to cover any shortfall	PG at 20% net of recoveries	PG to cover any shortfall	PG at 20% net of recoveries
	Strong balance sheet	Strong balance sheet	Weak balance sheet	Weak balance sheet
% of Business Recoveries to Lender	100%	100%	100%	100%
PG as % of post business recoveries	N/A	20%	N/A	20%
PG as % of original Loan	100%	N/A	100%	N/A
HMG percentage net loss exposure	80%	80%	80%	80%
Outstanding at time of default	400	400	400	400
Directors' assets available to cover PG	200	200	200	200
Business assets recovery (to Lender)	200	200	50	50
Loss pre-personal guarantee	200	200	350	350
Max. recovery from personal guarantee	200	40	200	70
Total recoveries	400	240	250	120
Total loss	0	(160)	(150)	(280)
<b>Cash Cost to HMG (80% of total loss)</b>	0	(128)	(120)	(224)
Cash Loss to Lender (20% of total loss)	0	(32)	(30)	(56)
<b>Loss to Government on Default</b>	0%	32%	30%	56%
Recoveries	100%	68%	70%	44%