UK Government Announces “Unprecedented” Support for Businesses and Workers Through the Coronavirus Crisis

30 March, 2020

Chancellor Rishi Sunak announced late last week a series of measures designed to support the UK economy through the coronavirus (COVID-19) pandemic. These measures are in addition to the £30 billion stimulus package announced a week earlier on the same day that the Bank of England (BoE) cut interest rates to an historic low. The Chancellor called the measures “unprecedented” and, compared to government intervention during the 2008-09 financial crisis, that description seems appropriate. The total cost of the measures announced to support the economy through the coronavirus crisis are estimated at around 2.5% of GDP compared to 2% during the 2008-09 financial crisis.

The measures announced by the Chancellor, which are discussed in more detail below, include the Joint HM Treasury and Bank of England Covid Corporate Financing Facility, the Coronavirus Business Interruption Loan Scheme, the Coronavirus Job Retention Scheme, an income support scheme for the self-employed and the deferral of VAT payments for businesses. We also discuss the BoE’s new Term Funding Scheme.

Joint HMT and Bank of England Covid Corporate Financing Facility (CCFF)

The CCFF was announced last week in order to ease cash flow difficulties that are likely to be faced by the UK corporate sector in the coming months. The aim of the CCFF is to provide funding to businesses by purchasing commercial paper of up to one-year maturity issued by firms that make a “material contribution” to the UK economy. For more information on the CCFF, including the eligibility criteria, please see our earlier posts, “**HM Treasury and The Bank Of England Throw Combined Weight Behind New Coronavirus Commercial Paper Programme**” and “**The Bank of England Releases Further Details on its Covid Corporate Financing Facility and ICMA Makes Euro Commercial Paper Materials Publicly Available**.”

Coronavirus Business Interruption Loan Scheme (CBILS)

The CBILS was established to support small and medium sized enterprises (SMEs) in the UK by providing access to loans, overdrafts, and invoice and asset financing of up to £5 million. The government will encourage SME’s to use the CBILS by providing a Business Interruption Payment covering the first 12 months of interest as well as any fees charged by lenders. The government has also announced that it will guarantee 80% of each loan. The CBILS is being delivered by commercial lenders, including all of the major UK banks.

To be eligible to participate in the CBILS, the SME must:

- be UK-based in its business activity with annual turnover of no more than £45 million;
- operate within an eligible industrial sector (note that almost all business sectors are eligible, except for certain firms within the financial services sector and the public sector bodies); and
- have a borrowing proposal which, but for the current coronavirus crisis, would be considered viable by the lender, and for which the lender believes the provision of finance will enable the business to trade out of any short-to-medium term difficulty.

There has already been criticism of the CBILS from SMEs and Members of Parliament following claims that some lenders are insisting on personal guarantees from business owners. However, guidance published by the British Business Bank, which oversees the CBILS, explains that the provision of security is at the discretion of lenders, although primary residential property is explicitly excluded from being taken as security.

Bank of England Term Funding Scheme (TFSME)

The Bank of England has introduced a new Term Funding Scheme for banks and building societies which includes additional incentives for lending to SMEs. The TFSME will, over the next 12 months, offer four-year funding to banks and building societies of at least 10% of participants' stock of real economy lending at interest rates at, or very close to, the base rate. An additional incentive has also been introduced for lending to SMEs with the Bank of England agreeing to provide £5 of funding for every £1 of positive net-lending to SMEs.

The aim of the TFSME is to provide banks and building societies with a cost-effective source of funding to support and encourage additional lending to large corporates and SMEs, with a particular focus on supporting SMEs that typically bear the brunt of contractions in the supply of credit during periods of heightened risk aversion and economic downturn.

Banks and building societies that are already participants in the Bank of England's Sterling Monetary Framework and that are signed up to access the Discount Window Facility are immediately eligible to participate in the TFSME.

For the purposes of the TFSME, SME is defined as a private non-financial corporation with an annual debit turnover of less than £25 million on the business account. Large Corporates are private non-financial corporations with an annual debit turnover of greater than or equal to £25 million on the business account.

Coronavirus Job Retention Scheme (CJRS)

The CJRS is open to all UK employers with a PAYE scheme to collect income tax and national insurance contributions from employees. The aim of the CJRS is to provide UK employers with support so they are able to continue to pay a proportion of the salaries of their employees who would otherwise have been made redundant as a result of the coronavirus crisis. Under the CJRS, HMRC will reimburse 80% of the wages of employees (up to a maximum of £2,500 a month) who have been asked to stop working but are kept on the pay roll.

To access the CJRS, UK employers must designate affected employees as 'furloughed workers' and then submit information to HMRC about these employees and their earnings using an online portal. The CJRS will initially be available for a period of 3 months until June 2020, although it can be extended if deemed necessary. UK employers should be mindful of the fact that employment law considerations and the terms of employment contracts will be engaged by any decision to changes an individual's employment status for the purposes of accessing the CJRS.

Assistance for the Self-Employed

In addition to help for businesses and their employees, the Chancellor announced an income support scheme for self-employed workers. The scheme allows individuals that are self-employed or members of a partnership to claim a taxable grant worth 80% of trading profits up to a maximum of £2,500 per month for the next 3 months. The scheme may be extended if deemed necessary.

To be eligible for the scheme, a self-employed individual or member of a partnership must: (i) have submitted an Income Tax Self Assessment tax return for the tax year 2018-19; (ii) traded in the tax year 2019-20; (iii) be trading when the application for support is submitted (or would be trading except for the coronavirus pandemic); (iv) intend to continue to trade in the tax year 2020-21; and (v) have lost trading/partnership trading profits due to the coronavirus pandemic. Moreover, trading profits must be less than £50,000 and more than half of a self-employed individual's income must derive from self-employment.

Deferral of VAT

HMT announced that VAT payments for businesses will be deferred for 3 months. The policy applies from 1 March until 30 June 2020 with payment due at the end of the financial year. No action is required for businesses to take advantage of the VAT deferral as the policy applies automatically to all UK businesses. It is estimated that deferring VAT in the current quarter will inject £30 billion of cash to businesses.

If you have any questions regarding the matters covered in this publication, please contact any of the lawyers listed below or your usual Davis Polk contact.

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