

COVID-19

NI START-UPS AND SCALE-UPS



Updated: 20th April 2020

POTENTIAL SUPPORT AVENUES

PURPOSE

This document has been prepared by Catalyst to assist NI Start Up and Scale Up companies by clarifying the potential forms of financial support during the Coronavirus outbreak. It covers:

Corona Virus Business Interruption Loan Scheme (CBILS)

Business Support Grants

Coronavirus Job Retention Scheme

R&D Tax Credits

Coronavirus Self Employed Income Support Scheme

Prince's Trust

The Future Fund

Innovate UK

General Funding Options

Further Support Under Discussion

Coronavirus Business Interruption Loan Scheme

For companies with cashflow and probably profitability, the new British Business Bank Coronavirus Business Interruption Loan Scheme (CBILS) could be helpful. It is run by the banks with a proportion of up to £5m loan 'guaranteed' by government. This scheme became operationally live on 23rd March and was significantly upgraded on 6th April. NI banks operating the scheme include Danske, Bank of Ireland and Ulster Bank.

It applies to companies who would have been considered 'viable' before the virus. The banks' actual interpretation of this phrase will be crucial.

Previously CBILS could only be applied to companies with insufficient security to get a normal bank loan. This condition has been removed which opens this up to a wider range of companies. It is important though to note that the companies must still be 'bankable' so eg pre-revenue start-ups would not be eligible.

There is 0% interest for 12 months and 80% of the loan is guaranteed by government via British Business Bank. There is an overall cap per lender which increases the risk for the banks, especially in this already very uncertain climate. However this cap is four times higher than on previous schemes on which CBILS is based.

Larger loans will require guarantees (limited to less than 20% of the debt) although personal homes cannot be used as collateral here. However, below £250k, the scheme has been updated to ensure there are no personal guarantees.

The support scheme can be applied to term loans, overdrafts, asset finance and invoice finance. The original rules about de minimis aid have been dropped.

Companies will have to provide projections etc and there is likely to be a bottleneck in processing these – especially as some bank staff are/will be off work. In addition, NI bank staff have no experience in operating the previous EFG Scheme. Companies working with banks without significant staff in NI are experiencing long delays in getting responses.

While in theory this scheme applies to start-ups, British Business Bank suggest that their Start Up Loans programme (loans up to £25k at 6%) may be better suited. Over £7m has been issued to NI businesses under this scheme.

See <https://www.startuploans.co.uk/free-start-up-guides>

HOW TO APPLY

Check up on the list of participating banks at <https://www.british-business-bank.co.uk/ourpartners/coronavirus-business-interruption-loan-scheme-cbils/accredited-lenders>

Approach you own bank first, ideally via their website. After that consider using other banks.

CATALYST SUMMARY

CBILS will work for a limited number of Start Up and Scale Up companies who are sufficiently developed to have been 'viable' for a loan before the outbreak. In practice we fear that obtaining loans, even under this scheme, may prove very difficult in the current risk environment. In our opinion, in 99% of cases for loss making companies (before Coronavirus) it will not be possible to access this scheme.

BUSINESS SUPPORT GRANT

The UK announcement of £10/£25k grants has now been translated into NI. The £25k grant is only be for companies in the hospitality, tourism and retail sectors. This rules out most Start Up and Scale Up companies.

While it might appear that the £10k grant would be helpful for Start Up and Scale Up companies, in practice this will be very limited. The use of eligibility for the Small Business Rate Relief Scheme as a filter means that in practice that it will only apply to very small companies. To illustrate this the NAV for an Innovation Centre unit at Catalyst is above £15k and so such members here will not be eligible.

Some small companies will pay their rates directly and so will have the necessary rates identifications to apply for this grant. However many will be in subdivided or shared workspaces and may find it impossible to obtain these. To be clear, the landlord is not eligible for this grant and so cannot claim on behalf of tenant companies.

HOW TO APPLY

A simple online form is now available to claim the £10k grant on :

<https://www.covid-19smallbusinessgrants.economy-ni.gov.uk/>

For the £25k grant use :

<https://www.covid-19smallbusinessgrants.economy-ni.gov.uk/BusinessGrant25K/>

CATALYST SUMMARY

The £10k grants may be helpful but only to the smallest Start Up and Scale Up companies.

CORONAVIRUS JOB RETENTION SCHEME

This is a bold scheme to provide up to 80% of the costs of workers not working - referred to as 'furloughed'. The details have now been announced and they make it clear the furloughed employees can not provide services or help generate earnings for their employer. So, while this would make a huge difference to many tech companies, they cannot continue development or coding at home using furloughed workers.

A further addition means that the government will now cover the employer national insurance and minimum auto-enrolment pension scheme contributions employers pay on the wages they must pay their furloughed staff – on top of the wages covered under the scheme.

There is already significant evidence that the entire funding pathways for new and growing Start Up and Scale Up companies are going to be disrupted for at least 6-12 months. Institutional investors are concentrating on their portfolio investments and ear-marking funds for additional extra funding rounds.

UK Business Angel Association research shows that angel funders are cutting back even more. They too expect to have to do extra funding rounds for their portfolios and in addition their source of funds is their personal savings whose value has plummeted.

Some funders still claim to be looking at new deals. A helpful list of many of those who do is at : <https://docs.google.com/spreadsheets/d/1Z3cGCZuDRrHznW4AvC41CnirNd5PDSBEQ0gVm4Zt5PO/edit#gid=1721480720>

Pre-revenue companies who are still developing their tech will need to be very careful not to fall foul of these rules. This will be despite their natural desire to use this opportunity to continue their vital development work.

HOW TO APPLY

HMRC states that employers need to designate affected employees as 'furloughed workers' and notify them of this change and then submit information to HMRC about the employees that have been furloughed and their earnings through a new online portal. The starting point to do this is at : <https://www.gov.uk/guidance/work-out-80-of-your-employees-wages-to-claim-through-the-coronavirus-job-retention-scheme> .

CATALYST SUMMARY

This scheme will be massive in helping Start Up and Scale Up companies survive. However, with furloughed workers disallowed from working, companies will fall behind their competitors especially where they are subject to different approaches to support e.g. in USA.

R&D TAX CREDITS

This one existing area of support might in fact provide a quick route to increased liquidity. R&D tax credits can be claimed much more widely than the name suggest, so many potentially eligible companies are not aware they can claim.

To help the flow of cash, the intended cap on R&D tax credits has been deferred for a period and extra staff have been drafted in to process claims.

The hope is that claims can be processed in 4 weeks with cash available within 2 more.

R&D tax credit claims are based on a company's annual accounts which could mean that some companies find that the timing is poor for them. A suggestion could be to change your financial year IE close your accounts early if this would allow you to put in an early R&D tax credit claim.

Recently new entrant providers have the ability to implement claims with a semi-automated process quickly and with much reduced cost. Some also couple this with a finance option which allows almost instant access to the cash for a small percentage of the claim.

HOW TO APPLY

The basic details of the scheme are on:

<https://www.gov.uk/guidance/corporation-tax-research-and-development-rd-relief>

A quick search will reveal a large number of specialist provider companies who can help with this process. In order to gain access to cash more quickly, companies may wish to check which providers also include a financing or advance service alongside the application process.

CATALYST SUMMARY

Many Start Up and Scale Up companies may not be aware of R&D tax credits, the speed with which they might be applied for and that some providers can give the cash almost upfront. For these companies, this scheme should be examined urgently and has already been transformative for some.

Coronavirus Self Employed Income Support Scheme

This scheme allows self-employed individuals or members of partnerships to claim a taxable grant worth 80% of trading profits up to a maximum of £2,500 per month for the next three months.

It is important to note that it works on profit as filled in Income Tax Self Assessment returns over the last 1-3 years. This profit must be less than £50,000 and must constitute at least half of your income.

The support is 80% of this figure, capped at £2,500 per month. Unlike the Coronavirus Job Retention Scheme, it is possible to continue work while receiving this support.

In order to qualify, you must have submitted in Income Tax Self Assessment tax return for the tax year 2018-19.

While in itself a massive support scheme, SEISS will apply to few Start Up Scale Up companies.

HOW TO APPLY

There is no need to apply. HMRC will contact those eligible and invite them to apply on line. You should not try to contact HMRC directly about this.

CATALYST SUMMARY

This will be an excellent support to the relatively few Start Up Scale Up companies where it might apply.

The Future Fund

The Future Fund is a convertible loan based co-funding scheme designed to assist Start Up Scale Up companies.

To be eligible, companies must have previously received £250k or more of non government third party funding. Note that in the Northern Ireland context, Techstart NI and NI Co-fund money does not qualify for this.

The Fund will invest 50:50 with further private third party funding. The Fund invests £125k to £5m so the minimum funding round is £250k.

The loan requires no guarantees but converts to equity at a discount of 20% in a later round. This means that no valuation is set for the loan round. The loan is at 8% interest pa but not paid until 36 months. If no further significant funding round occurs within the 36 months, the loan is either repaid (with interest) or converts to equity with the 20% discount. Note that if neither of these happen, the loan matures and is to be paid back at twice its original value.

As currently understood, this convertible mechanism is incompatible with EIS tax relief which may make it unattractive to angel investors. Pressure is being applied to make the small changes necessary, so the vehicle is an Advanced Subscription Agreement, which would be compatible with EIS.

Catalyst believes this scheme will be most appropriate for companies who can persuade their existing private backers (angels and VC funds) to provide further capital. All indications at present are that attracting brand new capital to co-invest with this Fund remains very difficult in the current climate.

HOW TO APPLY

Details will be provided by the British Business Bank in May.

CATALYST SUMMARY

This Fund will work for companies with sufficient existing non-governmental funds willing to provide further funding. Asking existing shareholders for say £125k towards a £250k round is not unreasonable.

However in Northern Ireland, with so many companies initially funded by government funds, many will fall outside this initiative.

Companies at an earlier stage or who are still boot-strapping will also fall outside of this intervention.

Innovate UK

The announcement of the Future Fund also contained details of further support available through Innovate UK. This will be aimed at supporting R&D intensive SMEs.

The first part of this provides a further £200m of grants and loans for the existing 2,500 companies already in receipt of IUK funding. It is not clear yet if this will be additional funding on top of what they were already expecting, earlier payments or additional options to apply for new projects.

A further allocation of money will offer £175k support to around 1,200 firms who were not previously in receipt of IUK funding.

No details are available yet of how this money will be offered. It seems likely, in view of the general principle being adopted by government, that it will use existing mechanisms e.g. the IUK (pilot) Accelerator which matches IUK funding with a pool of pre-qualified VCs or angels encouraged to invest at a much earlier stage.

HOW TO APPLY

More information is due in May.

CATALYST SUMMARY

For early stage companies strongly based on R&D these schemes could be really beneficial. In the best case they will allow crucial development to continue and also connect with new VC or angel funding.

However the IUK Accelerator pilots have not yet prospered in Northern Ireland and there may be some issues with funders not being set up to invest here.

The Prince's Trust

This scheme is run by the Prince's Trust along with NatWest (Ulster Bank in NI) and is open to young entrepreneurs aged 18-30.

Grants can be used to maintain core business operations during the crisis, as well as meet any existing financial commitments, such as paying for essential equipment or settling invoices from suppliers.

The scheme also offers one-to-one support and guidance to applicants who need it.

Businesses must have started up in the last four years and be run by someone aged 18 to 30. Young people who are in the process of starting a business and don't have any other source of income during the crisis are also eligible to apply for a grant.

HOW TO APPLY

Apply to the Prince's Trust and NatWest Enterprise Relief Fund at <https://www.princes-trust.org.uk/about-the-trust/coronavirus-response/enterprise-relief-fund>

CATALYST SUMMARY

While only £5m is currently available nationally, this scheme could be a real life line for early stage young entrepreneurs.

Further Support Under Discussion

The announcement of the Future Fund has, after much lobbying, provided a viable support for certain Start Up and Scale Up companies. Further lobbying is underway to ensure that the detail of this scheme makes it as effective as possible, so as not to negate the EIS tax relief for supporting angels. There is currently a danger of EIS being ruled out by the convertible loan structure.

However, there remains one important group of early stage companies without any significant support. These are companies that have either boot-strapped or have not yet taken sufficient private investment to qualify for the Future Fund.

Northern Ireland is particularly disadvantaged in this group, as so many of these companies receive their first funding from Techstart NI. As this is government funded, it does not qualify for the Future Fund.

Catalyst is continuing to lobby for this group. It seems unlikely that further support will come nationally, so this is an issue which needs to be addressed by Invest NI. Further funding for this, assessed to be £5-10m would need to go to the Department of the Economy as ministerial approval would be needed for the necessary budget.

It is believed that some proposals are in train for general help for Start Up and Scale Up companies not suited to the existing supports.

Catalyst continues to feed into and lobby both at a national and Northern Ireland level.

THE URGENCY

A number of pre-revenue companies are in serious trouble. Catalyst is speaking to and supporting a number, but some will not make it past this month.

CATALYST SUMMARY

Support for companies falling outside the Future Fund is both vital and urgent. It is fair to say that so far governments have done a lot of listening, but no support has materialised.

GENERAL FUNDING OPTIONS

There are a number of measures which will help cash-flow. These include VAT deferment of 3 months and in some cases rates relief.

Companies who pay rates directly will not need to take any action. However, those renting from landlords should ensure that their landlord passes on the deferment and in a timely fashion. In both cases the effect should be a 25% reduction in the annual rates paid.

CATALYST SUPPORT

As well as updating this document, Catalyst is very actively feeding into government both locally and nationally. It is facilitating the Start Up and Scale Up community to support itself as well as organising virtual support.

Springboard 2 Survive provides experienced staff and/or a panel of our Entrepreneurs in Residence to talk with companies in need of support. Just ask.

Catalyst online support is proving very popular, supported as it is by our community of experienced partners. This expertise is available to all companies and not just those in Catalyst.

CONTACT US

If you are a Northern Ireland Start Up and Scale Up company and want to discuss anything in this document, please contact us:

✉ community@wearecatalyst.org

🌐 Visit www.wearecatalyst.org for further support.