

NI START-UPS & SCALE-UPS Potential Support Avenues

Reference Guide

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 was updated regularly in the fast moving early days of support, but is now left as a reference document.

1. Coronavirus Business Interruption Loan Scheme (CBILS)
2. Business Support Grants (now closed for new applicants)
3. Coronavirus Job Retention Scheme (now closed for new applicants)
4. R&D Tax Credits
5. Coronavirus Self Employed Income Support Scheme
6. Prince's Trust
7. The Future Fund
8. Innovate UK
9. Coronavirus Bounce Back Loan
10. General Funding Options
11. Existing Funding Options

CBILS

CORONAVIRUS BUSINESS INTERRUPTION LOAN SCHEME

For companies with cashflow and probably profitability, the 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. Other lenders eg Whiterock are now also accredited. It applies to companies who would have been considered 'viable' before the virus. The banks' actual interpretation of this phrase is crucial.

Previously CBILS could only be applied to companies with insufficient security to get a normal bank loan. This condition was removed which opened 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 was 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 early delays in processing these seem to have abated.

Smaller companies should look at the Coronavirus Bounce Back Loans which will be easier and quicker to obtain.

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

CATALYST SUMMARY

CBILS has worked 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 our opinion, in 99% of cases for loss making companies (before Coronavirus) it will not be possible to access this scheme. However, the Bounce Back Loans will be better suited to many companies.

BUSINESS SUPPORT GRANT/NI MICRO BUSINESS HARDSHIP FUND

Now closed, the original support grants were £25k for companies in the hospitality, tourism and retail sectors and £10k for other sectors. Linked to the rateable (NAV) value of company premises, the £10k grant excluded many Start Up and Scale Up companies.

The follow up Micro-business Hardship Fund helped fill this gap. It provided grants of up to £5k and £10k for companies employing 1-9 people and who were not in receipt of the previous grants. The actual amounts granted came out of a fixed £40m fund and so the amounts given could have been reduced. In the event, the fund underspent and so there was no reduction in the individual grants.

HOW TO APPLY

These schemes are now closed.

CATALYST SUMMARY

A £5-10k grant may well have been a lifesaver for the smallest Start-Up and Scale-up companies.

CJRS

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'. It is now closed to adding further furloughed workers and the level of support will taper towards the scheme end in October.

As operated for the first phase, furloughed employees could not provide services or help generate earnings for their employer. So, while it made a huge difference to many tech companies, in many cases it virtually stopped their development programme.

The scheme is now transitioning to both increase the contribution of employers and also to allow furloughed workers to return part time.

HOW TO APPLY

The scheme is run by HMRC but is no longer open to furloughing staff who were not already furloughed.

CATALYST SUMMARY

This scheme has been a massive in helping Start Up and Scale Up companies survive. However, with furloughed workers disallowed from working, many companies fell behind their competitors especially where they are subject to different approaches to support e.g. in USA or Australia.

The scheme is now designed to avoid a sharp rise in unemployment as business restarts. However it is likely that for a proportion of workers being furloughed will turn out to be a step along the way to redundancy.

R&D TAX CREDITS

This one existing (pre-covid) area of support has in fact provided 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 online. 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 third-party funding, however with NI funds this situation becomes complicated.

The Fund will invest 50:50 with further third-party funding. The Fund invests £125k to £5m so the minimum funding round is £250k. Companies need to have their co-investment arranged before an application is made to the Future Fund. Note that the application process is led by the co-investor and not the company. The process is thought to take a minimum of 3 weeks, but there is much preparation a company can do to have all paperwork, signatures etc ready in advance.

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.

This convertible mechanism is incompatible with EIS tax relief which will make it very unattractive to angel investors. However, changes are promised to ensure that use of this structure will not prejudice EIS for existing investors.

The Future Fund is well designed for companies to raise more money from their existing funders. In cases where new VCs need to be brought in, this structure may be less attractive as new VCs may have ownership targets which will be harder to achieve with Future Fund also investing.

When looking at the NI funds as sources of prior or matching funding, it becomes complicated.

Crescent Capital and Kernel Capital funds work well with Future Fund. Techstart Ventures funds can be eligible but have to be judged on a deal by deal basis. The situation will be easier if Techstart have invested alongside other non-government money eg VCs or angels.

Co-fund NI cannot be used as matching for Future Fund. Co-fund can still however join in rounds where Future Fund is involved, its monies simply don't count towards matching. This leaves a significant gap in NI mostly for angel led rounds. Many angels across the UK, but more so in the regions, are finding their net wealth reduced and so are more reluctant to invest at present. A further support package from NI government may become available in this area.

HOW TO APPLY

Details from the British Business Bank are at :

<https://www.british-business-bank.co.uk/ourpartners/coronavirus-business-interruption-loan-schemes/future-fund/>

CATALYST SUMMARY

Despite its good intentions, using Future Fund alongside NI funds is patchy and complicated. It seems very likely that many who in other parts of the UK would make great use of this fund, in NI simply find it does not work. Despite this, a number of NI firms have successfully applied for Future Fund.

For some NI companies backed by Techstart Ventures or one of the NI VC funds, Future Fund may provide a further choice. This may be between their existing investing fund at one level as straight equity, or Future Fund along with their backer but as a loan note.

A number of NI companies are close to receiving Future Fund backing, however in most cases private investors are key and many of these are reluctant to invest at present, especially in NI where angel investing is less established. NI companies will instead use Co-Fund NI alongside their existing angels if they are still prepared to write cheques at the moment.

A further package of NI support may become available which would help alleviate this gap.

It is interesting to note that some companies may find Future Fund makes it more attractive for non-NI VC to join a next round probably alongside existing NI funds.

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.

A number of announcements have been made and the best approach is to monitor the IUK website.

HOW TO APPLY

The full position is not yet clear, so it is best to monitor the IUK website on :

<https://www.gov.uk/government/publications/access-coronavirus-business-innovation-support-package>

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.

It seems clear that there are good sources of funding, many of them grants, for companies who are genuinely innovating.

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.

CORONAVIRUS BOUNCE BACK LOAN

The Coronavirus Bounce Back Loan can provide loans which are 100% guaranteed by government. These are up to 25% of a company's revenue up to a maximum of a £50k loan.

The guarantee is to the lender, not the company. So this means that the company remains liable to repay the loan. However, unlike the CBILS loans, there is little risk to the banks who will actually lend out this money. This has resulted in a fast track process without the formalities and obstacles of CBILS.

The loans will be free of interest and capital repayments for the first 12 months and subsequent interest will be at 2.5% and loan terms can be up to 6 years.

The criteria appear simple, including having been adversely affected by coronavirus and not being 'an undertaking in difficulty'. The latter is an EU definition to do with the ratio of your company accumulated losses relative to your subscribed share capital, but does not apply to companies under 3 years old. Where a business is deemed to be in this category, further restrictions apply around de minimus aid, but the scheme may still be open to being used. Clearly professional advice must be taken on this.

The definition of revenue is that 50% of the revenue declared must be trading revenue, thus a company with significant grant income could be able to maximise their claim.

Applications are available online via banks. It seems likely that working with your existing bank could minimize paperwork at they will already understand that you are a legitimate business. You cannot use this scheme and CBILS at the same time.

HOW TO APPLY

Details are available at :

<https://www.british-business-bank.co.uk/ourpartners/coronavirus-business-interruption-loan-schemes/bounce-back-loans/>

This includes list of banks accredited to operate the scheme and to whom you should apply.

Note for speed of delivery, this scheme is largely self-certifying by the companies.

CATALYST SUMMARY

Catalyst analysis suggests that 2/3 of companies we work with would be suited to this support. It appears to be a major source of support for companies with some revenue of up to £200k and is still valuable, on a sliding scale, to those above this.

Indications are that this scheme is working well and money is flowing with good speed to suitable companies.

GENERAL FUNDING OPTIONS

There are a number of measures which will help cash-flow. These include VAT deferment of 4 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 33% reduction in the annual rates paid (for those properties with NAV <£15,000).

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

Catalyst continues to provide a matching service to suitable companies looking for non-NI funders. Although the UK investment market has changed, it is now coming out of its initial near freeze and new investment conversations are once again taking place.

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:

Email: community@wearecatalyst.org

Visit www.wearecatalyst.org for further support.

EXISTING FUNDING OPTIONS

While there is so much focus on Coronavirus support schemes, it is worth remembering that Northern Ireland already has strong existing support for Start Up Scale Up companies. These continue as they did pre-Covid-19 and should very much be considered as part of your company's plans.

In summary these are:

Techstart Ventures provide both grant and equity investment. The Proof of Concept Grants of £10k and £35k are on a competitive basis. Their equity investments start in seed rounds, which they often lead. They are also keen to co-invest alongside angels or other funds.

Clarendon Fund Managers operate both the Co-Fund NI and the NI arm of HBAN. The Co-Fund invests equity alongside angels or other investors in NI companies. With their wide connections, Clarendon can often help assemble some suitable co-investors. HBAN is an all island angel investor network, where Clarendon manage the NI operations. They help pitch companies to angels in NI, Ireland and further afield.

Crescent Capital invests up to £2.5m in initial VC equity rounds in NI businesses.

Cordovan is a venture capital and private equity syndicate who invest in NI companies.

Catalyst, while not a direct investor itself, continues to operate a filtered matching service to connect good NI companies with non-NI funders, often London VCs.

Innovate UK continue to run competitive competitions for both grant and loans capital for innovation-based companies.

The Defence and Security Accelerator also run open competitions towards grants to develop technology which could also help the governments defence capabilities

HOW TO APPLY

<https://www.techstart.vc/>

<https://www.clarendon-fm.co.uk/>

<http://www.crescentcapital.co.uk/>

<https://www.cordovancapital.com/>

<https://wearecatalyst.org/>

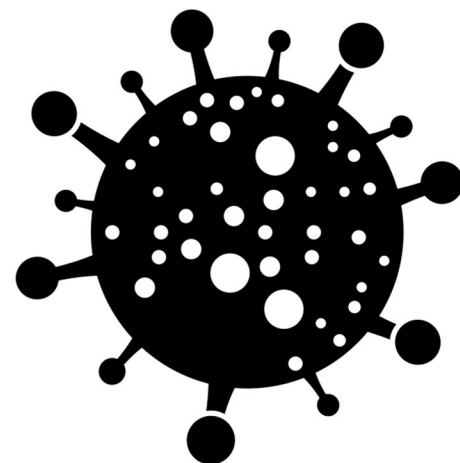
<https://apply-for-innovation-funding.service.gov.uk/competition/search>

<https://www.gov.uk/government/organisations/defence-and-security-accelerator>

CATALYST SUMMARY

Northern Ireland has the benefit of significant early stage funding, surveys have suggested that it is the best region in the UK in which to start a company and gain revenue of £1m.

Both Techstart and Clarendon are relatively early in their investment cycles and so do have money to invest.



For more information and resources visit
our dedicated COVID-19 website

www.catalystcovid-19.org

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