

In the hunt for the ‘New Normal’, normal business must not be left behind

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Last week I wrote about the need for more support for our high tech start-ups, so it was gratifying to see government’s recognition of this gap for our economy’s start-up engine with their announcement of the UK Future Fund. To be launched in the month following the lockdown, the scheme enables up to £250 million of government funds to be used as match-funding where private investors lend equal sums of between £125,000 to £5 million to UK-based high tech SMEs. Government has also pledged a further £750 million to Innovate UK which remains a vital source of finance for companies prioritising development of new technologies targeting near-to-market applications.

In spite of the scale of COVID response measures announced so far, welcomed across the board and estimated by West Midlands Economic Forum ([March Update](#)) to total as much as £900 billion, many in business have noted there are still too many gaps in the packages so far agreed – none with more feeling than in sectors directly affected.

It’s not only about the potential funding support on offer. It’s about the certainty of getting it, especially after four years of Brexit-related uncertainty. More than anything, businesses I speak to want clarity and certainty so they can plan for the future. In the hunt for our ‘new normal’ – reportedly the latest choice phrase from ‘Downing Street sources’ – it is essential that normal business is not left behind.

Over the last week, talking to a range of businesses coping with these challenging times some themes have emerged repeatedly, especially

the need to extend the Brexit transition period beyond the end of 2020. However despite disappointing results in the latest round of EU-UK talks, with limited progress and significant differences of principle, the UK continues to set its face against any delay.

It's generally acknowledged that VAT and PAYE payment deferrals have been working well. For businesses involved in retail, hospitality or leisure the 12 months business rates relief has been welcomed.

The lack of notice given by government ahead of the lockdown was a source of criticism as businesses with perishable goods were forced to clear out stock almost overnight. Sandwich bars, florists, garden centres, cafes and restaurants all had to write down recently purchased stock, a situation that could have been avoided had government ensured even a few days for sectors affected to take action. Without the excuse of a safety critical response, advance notice of government's plans to lift the lockdown restrictions, is even more essential so business is able to plan efficiently for a return to work, possibly through a number of phases.

Grant funding has been welcomed by those qualifying and is reported as coming through – by and large – with over 1100 payments worth over £11.5m made by Malvern Hills District Council alone as reported, [Malvern Hills District Council Email News](#).

Grants available have been criticised however for not relating to turnover, profit, or capital investment along with the jump in support from £10k to £25k, and the lack of any ability to flex amounts provided. One jewellery business owner commented:

“We have ended up with a lot of businesses that don't need grants receiving £10k. I have a team of 6 staff and a significant rent. I had 48 invoices outstanding as I had been restocking when the lockdown was announced. With no notice I had no reason to put these on hold. So £10k for us is not going to pay wages. Then you jump to £25k, there is no middle ground.”

An outdoor activities business-owner commented:

“We have put our life savings into our family business which involves significant capital assets and we employ around 25 staff. The idea

that we qualify for the same grant as a local B&B business which operates out of their family home and has not invested significantly seems poorly judged.”

Most businesses of all sizes are relying on furlough support providing 80% contribution towards staff salaries. They are currently waiting to see if this will be paid at the end of the coming week. Whilst some businesses are topping up the furlough to pay 100% of salaries during the first months of lockdown, their ability to do this on an ongoing basis is likely to reduce as crisis continues, with inevitable impacts on employees.

For most larger companies the furlough has been their chief source of support to date. Some are eligible to access the Covid Corporate Financing Facility, open initially to larger companies with credit ratings and providing access to 12 month government bridging loans. In attempting to reach the so-called ‘squeezed middle’, or mid-sized companies without a credit rating, Chancellor Rishi Sunak has outlined a proposed ‘workaround’ by imputing a credit rating to mid-sized companies on the basis of their relationships with their existing banks. However, many companies in this bracket remain unaware or so far have been unable to access this much-needed support.

On 26th March, government announced a scheme for self-employed workers or partnerships suffering Covid-related loss of income through a grant worth 80% of their average monthly profits over the past three years, capped at £2,500 per month.

The Coronavirus Business Interruption Loan Scheme (CBILS), administered via the British Business Bank and over 50 participating lenders, was set up to provide loans of up to £5 million to SMEs. But this package is widely reported by business people who have tried to access it as a ‘complete disaster’. As one desperate business owner said to me: ‘almost no one qualifies, the banks won’t approve the loans as they’re using current viability tests and businesses need a three year trading track record to qualify.’

Another added that the situation is now so bad that large numbers of potentially eligible businesses are not even applying as they have been ‘warned off’. One firm claimed to have been refused a loan on the basis it was Venture Capital backed.

Another Birmingham-based recruitment business stated:

“I don’t think it’s a good idea for Banks to decide which companies ‘live or die’ at present. If we had been granted a loan in the first tranche five weeks back we would be in a different position now.

“We’ve invested everything into what we’re doing, we employ people and pay taxes. We’ve been established for a while so the angel scheme does not apply to us. We’re a limited company paying ourselves via both a small PAYE salary and dividends, so we are not covered by grant funding available. The only scheme which applies to us is the loan scheme – which has to be approved by a bank.”

This business also has an existing business loan and has been granted loan repayment deferral terms with a three month holiday. However once repayments started again, these would be increased to cover the outstanding sum due over the remaining term period.

“This means our cashflow will be hit again when we are up and running at full capacity once more.”

Alison Rose, the CEO of RBS, when questioned on BBC Radio 4’s *Today* programme about the CBILS scheme’s effectiveness, given that her bank would not exist without a taxpayer bailout, responded by stating:

“I have to balance being a responsible lender. There are different levels of support we can offer. It’s important we don’t just load debt onto a business that cannot survive without debt.”

One business wryly suggested this implied that only businesses that are debt free deserve any kind of support!

In the meantime, Pat McFadden MP has highlighted the UK’s poor track record in processing CBILS, noting that only 16,500 such loans had so far been processed by UK banks, compared to six times that number for a similar scheme in Switzerland, where loans are fully guaranteed by government through a next-day application process. He also observed that the UK offers a complex range of packages compared to the simplicity elsewhere, which has provided far greater penetration of support.

Rental payments are also causing frustration, with the Birmingham-based recruitment company noting:

“We pay for a lovely office and our landlord switched us from quarterly to monthly payments through the crisis for an office which we can’t use. Rental for us is 25% of turnover or £5k a month. Our revenues are down 90% – normally we recruit 30 people a month, this is down to 3 people per month.”

The Secretary of State for Business, Alok Sharma, says he is looking to do more over the coming week to deal with landlords applying undue pressure on tenants through aggressive recovery measures. Many business people note that the doctrine of frustration of contracts is increasingly being found to favour the lessee where the coronavirus and supervening events are seen to cause ‘impossibility of performance’.

Directors of limited companies taking salary as PAYE and through dividends are ineligible for self-employed grants and are unable to claim any furlough, as directors are only able to undertake statutory duties. On top of this, they are also finding it very hard to access help through the CBILS scheme.

There are about two million SMEs which perhaps see themselves as the ‘forgotten limited’. Many are calling for parity with the self-employed who are able to get up to £2,500 and carry on working. As one director of a small limited company observed:

“Directors in these cases are not generally millionaires and take the risk of reinvesting into the business to help make it more sustainable, resilient and put on a footing to enable growth. This obviously means that we can employ people, train people and give people the opportunities and security that employment brings.”

Adding to the debate, in another Radio 4 interview, Lord Gus O’Donnell commented that another month added to the lockdown would lead to many businesses ‘going out of business, with long term consequences on health, and government needs to look at the values attributed to quality of life.’

O'Donnell highlighted the fact that the National Institute of Clinical Excellence (NICE) use a 'value of life cost' which if applied to the Covid-19 crisis would not lead to a lockdown. Trade-offs were required, he said, around the 'Quality Adjusted Life Year' used by NICE and the value of life lost to Covid-19, which was more than the figure being used by NICE in evaluating new drugs. He called for more transparency in decision making and outlined a framework to enable this.

David Smith (in *The Sunday Times*, 26th April) notes the government's mixed record so far, especially on the CBILS scheme.

He observed: 'the trouble with lockdowns is that ... it's even harder to get out of them... The task of weaning the country off lockdown will be a delicate one... We may have to live with it for sometime yet.'