Start-ups going to the wall as Rishi Sunak stumbles over coronavirus rescue

Budding entrepreneurs despair of the chancellor's efforts to save them

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Zoe Whitman set up But the Books to provide bookkeeping services to start-ups

Trying to run her bookkeeping business while looking after two young children during a global pandemic has been a struggle for Zoe Whitman. The days merge into each other and she can reply to emails only at night or at the weekend, when her husband looks after their children, aged three and nearly one.

"If Joe Wicks is on, I know it's a weekday," said Whitman, 37, referring to the "body coach" whose daily workouts have become an online sensation.

Last week, Whitman bowed to the inevitable and shut her Bristol-based company, But the Books. Her two members of staff will be placed on furlough for three months and the remaining clients have been informed that they will not receive any services after the end of this month. Whitman hopes she will be able to revive the business when the crisis clears — but the longer the lockdown lasts, the less likely that is to happen.

But the Books is one of thousands of companies to fall through the cracks of the vast state support package outlined by chancellor Rishi Sunak over the past three weeks. Despite his promises to do “whatever it takes” to save the economy, many bosses are finding they do not qualify for any of the emergency loan schemes worth £330bn intended to provide life support for stricken businesses — or, if they do, the terms will merely delay the looming cash crunch.

After a backlash from businesses, the government expanded its emergency loan programme last week. The measures included a new lending scheme aimed at bigger companies excluded from the Coronavirus Business Interruption Loan Scheme (CBILS). Guidance that smaller businesses should take out a commercial loan if they still qualify ahead of an interest-free emergency product have been dropped.

The government also said it was “banning” banks from demanding personal guarantees — a choice of word that was branded as sophistry by bankers, who said it was the government that had ordered them to lend on normal terms.

The changes were welcomed, but there is a feeling that the Treasury is playing catch-up. One senior banking figure said: “The day they announced the [original] scheme they thought this was pretty extravagant stuff and, less than two weeks later, it looks too feeble. I have every sympathy with the Treasury, because they’re having to make stuff up as they go along.”

There is less sympathy for the chancellor’s position among businesses that are fast running out of cash. The Corporate Finance Network estimates that between 800,000 and 1 million will go bust in the next four weeks. Seeing almost a fifth of small companies go to the wall would be a disaster for Sunak. He was the subject of a laudatory newspaper profile this weekend under the headline “The Coronavirus Chancellor” and has appeared as a serene figure at news conferences next to the prime minister. Yet doubts are starting to emerge — chief among them Sunak’s reliance on the British Business Bank (BBB) as the conduit for his rescue plans.

The state-funded economic development bank was set up only six years ago with the aim of increasing the supply of finance to small businesses. It was largely anonymous until the Brexit vote, when Theresa May said it would replace many of the functions of the European Investment Bank. The former chancellor, Philip Hammond, gave the BBB an extra £2.5bn of public cash in 2017.

Start-up founders and investors who have worked with the BBB say it is meticulous but often slow-moving. Sources say its lack of dynamism has not served the bank well during the coronavirus outbreak. Despite growing criticism, it has failed to expand the number of banks approved to make loans under the CBILS to include alternative lenders.

“The BBB has to be fundamentally re-engineered,” said one senior banking source. “They have got to stop thinking of themselves as a bank — they are a booking mechanism for these loans. It’s trying to approve these loans one by one and it doesn’t have the resources or capability.”

The BBB said: “It is incorrect and inaccurate that we are approving loans one by one. It is also incorrect that the bank approves the loans — the credit decision is fully delegated to the lender and the lender approves the loans. We are managing the scheme.” It added that almost 1,000 facilities worth £90.5m had been approved since CBILS was launched.

The new scheme for larger companies is already causing concern. Bank bosses, stung by criticism that they have been too conservative in making decisions on loans that are 80% guaranteed by the government, have said they want to lend more, but are restricted by the process.

Although businesses seeking a loan still go directly to their lenders, the lender needs a sign-off from the BBB to secure backing from the government, in case the borrower defaults. Businesses are also concerned that loans for larger companies are capped at £25m. "If you're a corporate with a £500m turnover, and you're not able to operate for a few months, you might need a loan that's 25% of your annual revenue rather than £25m," said a bank adviser.

Limiting the loans to companies with a £500m turnover means there are still many in the "squeezed middle" that do not have access to emergency finance. Those above £500m that do not have an investment-grade credit rating are unable to tap the Bank of England's commercial paper scheme.

"It's positive that the government has extended the business loans scheme," said Tory MP Julian Knight, chairman of the Alternative Lending all-party parliamentary group, "but the banks need to make sure they are ready to extend more lending, which is urgently needed."

If the banks fail to show support, there is a danger they will lose customers when the economy recovers. A report by the Supper Club, which represent about 500 fast-growing businesses with a turnover of more than £1m, found that 86% of its members planned to switch to challenger banks if high street rivals do not offer responsible support during the crisis.

Promising start-ups that operate at a loss are not seen as eligible for loans. Some could miss out on any sort of funding. Almost 650,000 small businesses could be refused grants being distributed by local authorities as part of the rescue package because they operate from co-working spaces. This firms are not registered for small business rates relief, as the co-working provider pays the levy — but the cost is typically bundled into membership fees, so they pay it anyway.

One idea to support start-ups is to create the Runway Fund, a publicly funded vehicle for backing promising businesses. Those calls have gone unheeded in Britain, but not everywhere.

"We have shared that idea internationally and we have seen it be picked up," said Dominic Hallas of the Coalition for a Digital Economy, an advocacy group for tech start-ups. The French government has adopted it, but we are still waiting."

£5bn recovery plan

A proposal for a "new 3i" to help businesses emerge from the coronavirus crisis has been submitted to the Treasury with the backing of the CBI. Plans to create a £5bn fund using taxpayers' money have been put together by the growth investor Foresight Ventures.

3i was launched in the aftermath of the Second World War to help regenerate the economy. The new fund would have a similar objective, but rely on private sector investors to make the decisions.

Meanwhile, a campaign to "save our start-ups" will be launched this week to help thousands of promising young businesses that do not qualify for existing schemes. Its backers include Zoopla founder Alex Chesterman, Net-a-Porter's Arnaud Massenet and the lastminute.com co-founder Brent Hoberman. More than 20 industry bodies and lobby groups have also signed up.

FOUNDERS SPEAK OUT

Zoe Whitman
Whitman set up But the Books, which provides bookkeeping services to start-ups, in Bristol three years ago. The business qualifies for a £10,000 grant, but that is only enough to ensure it pays its rent. Whitman, 37, said she had considered a loan, but did not want to take on debt when facing an uncertain future. "It's probably best just to cut my losses," she said. "I know I could walk away and not be in debt to anyone. That's much more comfortable than borrowing money for an unknown amount of time."

Steve McCulley
Five years after he was injured by a bomb in Afghanistan, this former Royal Marines major launched his custom bicycle-maker, Lios, in Lee-on-the-Solent, Hampshire. As soon as the business interruption loan scheme was launched, he approached his bank, NatWest, but could not get through on the phone or email. He eventually got a reply on Twitter and was told someone would be in touch. McCulley, 42, has not heard anything since. "It is the not knowing that is frustrating," he said.

Brian Watt
Watt, 62, a former Kraft and Johnson & Johnson executive, owns and runs Sloane's Hot Chocolate in Byfleet, Surrey. As the crisis hit, he talked to Barclays about a business interruption loan of up to £75,000, but was told it could take six weeks for it to be approved and paid. That would imperil his five employees. "The bank is giving us solutions for the end of May, but we are struggling to stay afloat now," said Watt.

Sam Fairbrother
Fairbrother put a photography business on hold three years ago to start White Rabbit Distribution in Manchester. It sells a mobile phone protector called the PhoneHug. Her husband and co-founder, Geoff Barke, also works in events at the MEN Arena, but all gigs have been cancelled until June. The couple have not considered a loan and are relying on existing facilities to see the business through. "We are living on credit cards at the moment," Fairbrother, 46, said.

Sam Clark
Clark, 43, is co-founder and managing director of Experience Travel Group, which provides luxury trips to Asia. When he applied to Barclays for a loan, he was told to provide detailed financial projections until September — almost impossible while the lockdown is on. "I'm going to go through the process once more because it's essential for us," said Clark, who is based in Clapham, south London. "We've been told it will be a long process, and that's OK for us, but we do need the certainty."

Geoff van Sonsbeeck
Van Sonsbeeck is boss of online fashion company House of Baukjen, founded with his wife Baukjen. He would like a loan of up to £400,000 from Metro Bank, but has been put off so far by demands for a personal guarantee. “None of the banks are volunteers — they’re all prisoners. They’ll keep declining the people who need it,” said van Sonsbeeck, 52, from Hampstead, north London. He is taking time to decide whether the expanded scheme is right for House of Baukjen.

Andrew Power
Power’s company, Age Active, provides activity sessions for the over-50s in and around Stockport. It is profitable and Power, 43, assumed he could count on support from his bank, NatWest. He got in touch three weeks ago and was told he could extend his overdraft if he paid a fee of £150. He has made numerous attempts to contact NatWest since then to discuss further options. “I was told to expect a phone call within four days when I used their online chat system last week, but, as expected, I’ve heard nothing.”

Claire Hill
Hill sells jewellery and hair accessories through a limited company. As she is the sole employee of Claire Hill Designs, she cannot furlough herself and continue handling the trickle of online orders still coming in, but will not get support designed for the self-employed either. Cardiff-based Hill, 40, does not want to get into debt. “It would be nice to treated the same as other businesses and industries,” she said. “I’m going to focus on keeping my business going — and hope the post office doesn’t shut.”

Nii Cleland
Cleland, 26, was raising £1m for his football app before the crisis hit. Flair Football does not qualify for a loan as it is loss-making, and Cleland cannot get a small business grant. “It is completely not for us, and other start-ups,” he said. “It’s a joke.” Because he does not qualify for help, except for the job retention scheme for his 11 staff in north London, Cleland is seeking £50,000 via crowdfunding.

Louise Birritteri
Pikl, which provides insurance for Airbnb hosts, has grown to 22 staff and won investment from Direct Line founder Sir Peter Wood since being set up by Birritteri in 2016. But as Airbnb bookings have dried up, so have her sales. Pikl does not meet loan “viability” criteria. “We had planned to have losses over the next couple of years to grow to a significant scale,” said Norwich-based Birritteri, 38. “I’m disappointed in the government. They should be looking at start-ups as the new life-blood of the country.”