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Entrepreneurs hanging by a thread as winter debt crunch draws closer

Covid vaccine offers hope but may arrive too late for many ailing small traders

*By*Russell Lynch, ECONOMICS EDITOR14 November 2020 • 5:00am

The fleet of Mercedes lying idle on the Lancashire forecourt of hire car boss John Coombes bears testament to the brutal impact of the pandemic since March.

Coombes, the managing director of Fylde Executive Cars, lost "around 98pc" of his business overnight and the 54-year-old is "having to use every bit of wit and guile" to survive.

The chauffeuring firm's bread and butter of corporate travel and live events has been snatched away. "Directors aren't flying, Britney Spears isn't coming and Manchester United aren't kicking," he says.

Like hundreds of thousands of other businesses up and down the country, Fylde is digging in for a hard winter. While the emergence of Pfizer's vaccine finally offers a missing ingredient – hope – recent warnings suggest 500,000 firms are in severe financial distress and a spike in insolvencies next year looks likely.

Can they hang in there until something resembling normality returns next year?

Coombes was "quite emotional" when he heard the vaccine news. "I thought, 'well, there is light at the end of the tunnel', but then there is the dread of 'we're so close yet so far'.

"It still needs the MEN Arena filling, it still needs the Virgin flight to Orlando filling, it still needs the Open golf championship."

Cash conservation is key. Staff have been cut – the furlough extension came too late – half the fleet has been sold and, "heartbreakingly", Fylde's new headquarters, opened just two years ago, is on the market for a tenant as he doesn't have the workers to put in it. The firm has used a Bounce Bank Loan (BBL) but Coombes is resistant to taking on yet more debt.

Meanwhile, the company has moved out of its north-west patch and is scouring for work from "Land's End to John o' Groats".

£62bn has been paid out through the Government's main coronavirus lending programmes

Chart with 3 data series.

Cumulative value of CBILS, CLBILS and BBLS

View as data table, £62bn has been paid out through the Government's main coronavirus lending programmes

The chart has 1 X axis displaying Time. Range: 2001-05-08 09:21:36 to 2001-10-19 14:38:24.

The chart has 1 Y axis displaying . Range: 0 to 70.

£62bn has been paid out through the Government's maincoronavirus lending programmesCumulative value of CBILS, CLBILS and BBLSCBILSCLBILSBounceback loans schemeJun '01Jul '01Aug '01Sep '01Oct '01£0bn£10bn£20bn£30bn£40bn£50bn£60bn£70bnSource: HMRC/ HM Treasury

End of interactive chart.

Other businesses have also had to make virtually overnight shifts to survive.

James Morris, the founder of West Sussex-based Trafalgar Marquees, lost 80pc of bookings and the focus has shifted from corporate event work to large temporary canteens for the likes of schools and big construction firms.

He is "trying to be as innovative as possible to keep cash coming through the door", plans week to week, and apart from essentials, "capex has gone out of the window".

A BBL "kept the wheels on the train", but staff have been cut to just eight from typical summer peaks of around 30, and he is also trying to be as "brutally realistic" as he can about when the vaccine arrives. He worries: "My biggest concern is would you have confidence next year to go to a festival or a big party?"

Many companies won't make it, though. Insolvency practitioner Begbies Traynor's "red flag" alert system suggests 557,000 companies are in "significant" financial distress, based on outstanding county court judgments and deteriorating financial metrics.

Chairman Ric Traynor says his company is speaking to around twice as many businesses as usual, and advises firms to take every penny they can from the Government and not to hide from their creditors.

Inevitably, insolvencies will rise next year, according to Traynor, but he suggests the emergence of the vaccine means that the damage won't be as bad as 2009, when 26,000 went under.
His best guess is that "somewhere between 21,000 and 22,000" firms will go to the wall.

The number of companies falling into insolvency was down 39pc in September compared to last year, thanks to bans on winding-up orders and evictions, suggesting an artificial "hole" to be filled even before taking account of the virus.

"There will be a catch-up, no doubt," he says. Businesses will need to find a way through to deal with the tens of billions in debts racked up through the crisis, however, vaccine or no vaccine.

"What we will see next year as we get back to something approaching normality is a lot of formal company voluntary arrangements, where firms sit down with a creditor and say 'here's a plan to pay you over the next three or four years'," Traynor adds.

Some 40pc of firms in accommodation/food are at risk of going bust

Bar chart with 5 data series.
ONS risk of insolvency by sector, %
View as data table, Some 40pc of firms in accommodation/food are at risk of going bust
The chart has 1 X axis displaying categories.
The chart has 1 Y axis displaying %. Range: 0 to 120.
Some 40pc of firms in accommodation/food are at risk ofgoing bustONS risk of insolvency by sector, %Severe riskModerate riskNot sureLow riskNo riskAccommodation & food servicesArts entertainment & recreationEducationWholesale & retail tradeHuman health & social work activitiesTransportation & storageConstructionManufacturingAll industries020406080100120SOURCE: ONS
%
End of interactive chart.

Even in normal times, more firms typically go under during the winter quarters. Nicky Fisher, a deputy vice president at insolvency trade body R3, says January will be the key moment of danger for when landlords and HMRC are able to start chasing debts.

Some “zombie firms” will be purged from the corporate ecosystem, she adds. “At the moment we have got a few companies out there who won’t survive whatever they do and it is just delaying the inevitable for some.

“Then you have the problem that it is going to be a bit of an unfair playing field. Those people that are going to survive are going to be in competition with those who aren’t, who will just charge what they like to get a few more quid in the bank.”

That’s a question which also bothers Alan Jenkins, the managing director of Quadrant2Design, which builds stands for exhibitions. Jenkins has shed three quarters of his 47 staff, furloughed most of the remainder and is hanging on for the revival of the events sector, which he thinks won’t come before next September at the earliest.

Quadrant, which has also taken on Coronavirus Business Interruption Loan Scheme support, has invoiced virtually nothing since March but is running down £1m in cash reserves carefully husbanded over 20 years. Even though he has used government support, that rankles with him.

He says: “A lot of our competitors which under these circumstances we would expect to go bust – our low-rent competitors – will still be around unfortunately. I was expecting us to be one of the only companies left standing in our sector, but I don’t think we will be. Unlike us, they’ll probably go insolvent, won’t have to pay the loans back and they’ll just start up again.”

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That moral hazard should be met with cuts to corporation tax and employment taxes from Rishi Sunak to give companies a lift, he argues.

The call is also echoed in part by Tony Wilson, the Institute for Employment Studies' director, who argues that raising the threshold for employers' national insurance would ease the pressure on cash flow while encouraging more companies to hang on to staff.

Raising it by £2,000 to £10,800 would give back £275 to firms for every one they employ above that salary, albeit at a cost to the Exchequer of around £500m a month.

"Reducing labour costs is the most important thing the Chancellor could do. If you reduce the national insurance burden for employers then that will feed through into more demand," Wilson says.

Businesses in the fight of their lives will certainly take all the help they can get. For Coombes, though, the "single biggest thing for me personally is 'do I want to continue?'".

He says: "I know an awful lot of small business owners, whether it's hotels or pubs, or retail, and pretty much every man and woman among them has said, 'it is not about carrying on, but it is about whether you really have got it in you to want to carry on'."

The UK's economic fortunes could depend on thousands of battered entrepreneurs like him finding the resolve to stay the course.