Small businesses face the heat as thousands unable to pay back bounce back Covid loans

A lifeline for businesses to stay afloat during unprecedented times, but has the Covid loan scheme done more financial harm than good in the long run?

BIRMINGHAM, ENGLAND, UNITED KINGDOM, August 5, 2022 /EINPresswire.com/ -- 1.5 million bounce back loans were granted to small businesses during the pandemic as part of the government backed Covid loan scheme. Since the roll out of cash to struggling businesses in 2020, it has been reported that over 16,000 companies who took out the government loan have gone into liquidation before being able to repay the funds. In the last year alone, the country has seen its largest increase in liquidations, many occurring just as the loans were due to begin their repayments.

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>
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Naturally the long term effects of the pandemic have been lasting for small businesses, particularly those who relied on the bounce back loan for a short term fix without the means to pay it back when things got moving again. Many companies have found themselves under fire as they struggle with limited labour, inflating costs and the pressure of these bounce back loan repayments before they can even begin to see profit.

Part of the issue with this is that in the rush to mend the economy, checks on the borrowers in question were limited. Under the scheme any small business could apply for a loan of up to £50,000. This was meant to be dependent on turnover but as applicants were allowed to self-certify their figures, many simply received more money than they could ever afford to pay back. £47 billion pounds worth of loans were handed out, all intended to be repaid within years but with hundreds of directors receiving loans they weren't entitled to, not to mention the thousands of companies who simply couldn't keep their heads above water, it's no wonder that this bounce-back blunder could cost the taxpayer as much as £500million.

Many companies in this position are going down the route of Creditors' Voluntary Liquidation (CVL) but what can business owners do to help themselves avoid insolvency? Peter Stanton, director of Birmingham based financial services, Peak Cashflow commented that "Every year, start-ups and small businesses in the UK fail because they run out of cash. One of the main reasons for this is cash flow problems caused by slow-paying customers and bad debt. Unless you implement a clear credit control process, your business's ability to grow will be under threat. We recommend our customers keep a clear credit control process by invoicing quickly and accurately, forecasting their cash flow and keeping it up to date"

The majority of businesses who have gone bust from the bounce-back loan scheme were legitimate borrowers who simply couldn't make ends meet, however there is also an increasing amount of evidence that bounce back loans were misused. These fraudulent claims are being investigated, but there are fears that at least 17 billion could be lost through these fraud cases, mistakes and insolvencies. A far cry from the desired end result of a scheme intended to save the economy in its moment of crisis.

Anne Kristensen
Peak Cashflow
email us here
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