

Business pulse check

ARE BUSINESSES SURVIVING THE PANDEMIC?

Key headlines

Nearly two-thirds of businesses report that trading is down.

But despite this, over half are confident that they can carry on business over the next six months. Around a third of businesses say they are likely to make redundancies.

The majority of businesses surveyed have used the government's support schemes.

Nearly a third think they will need government support over the next six months.

A 'Reduction in business rates to help the High Street' is seen as helpful by the majority in boosting the recovery of the UK economy.

View from ICAEW

As the UK economy faces significant headwinds, our survey results show the important role that government support continues to play. The Coronavirus Job Retention Scheme in particular has been widely used. As support tapers and adjusts to current circumstances it is important that the terms and qualifying conditions for these schemes remain clear.

ICAEW has recently responded to HM Treasury's call for evidence on business rates. They have been a significant cause of strain for many businesses and it is vital that government looks again at this area as rates kick back in for retail, hospitality and leisure businesses in April 2021.

Tax payments will be high on the agenda for many businesses in 2021 as VAT deferred in the crisis begins to fall due and government support schemes unwind. It is time to look again at key strains in the tax system to ensure the economy is in the best possible position to recover from the crisis.

John Boulton
Director, ICAEW Technical Policy



With the latest restrictions casting a new black cloud over businesses that were beginning to recover from the economic effects of the pandemic, it's clear that more intervention from government would be welcome.

In particular, some struggling companies could fail when faced with inflexible business rates bills. Reducing the business rates multiplier would bring down the cost of this charge, and therefore lessen the burden on companies at this critical time.

Although the whole economy is suffering, it is striking that the economic effects of the pandemic have impacted some sectors with much more brutal damage than others. Targeted sectoral policy measures from government have been seen to work earlier in this crisis. With the prospect of more restrictions threatening the very survival of businesses in some sectors, government financial support on a sectoral basis would be welcomed by those industries most in need.

Iain Wright
Director, ICAEW Business and Industrial Strategy



About the survey

ICAEW recently undertook a short survey of its members in business in the UK, to find out how coronavirus is affecting their organisation and whether the current schemes offered by the government are helping.

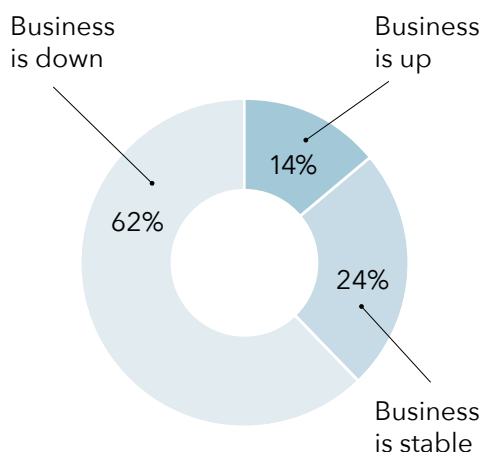
We wanted to know what, if any, government schemes businesses have used in the last six months. We also asked about understanding of the new schemes being introduced. We asked general questions about confidence and whether businesses need any government support to survive over the next six months.

This was an online survey, sent to ICAEW Chartered Accountants in every economic sector, region of the UK and company size. The survey ran from 15 to 21 October 2020, 401 responses were received.

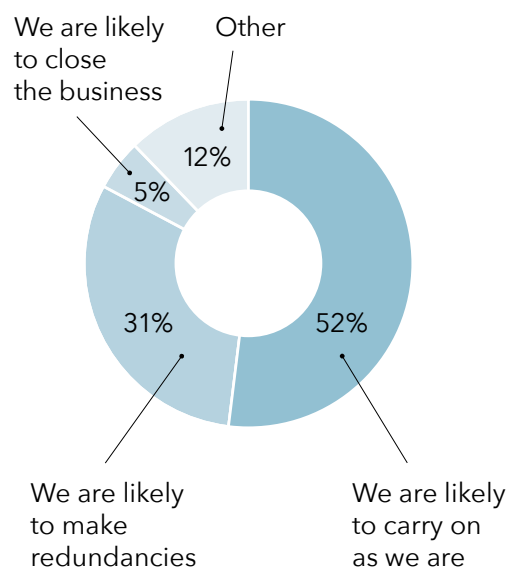
SUMMARY OF FINDINGS

The results paint a sober picture, with 62% of businesses reporting trade as down. But there is some optimism; while 36% expect to reduce staff levels or close altogether, over half of businesses anticipate remaining as they are. Equally, less than a third of businesses feel that they definitely need government support to continue – although clearly conditions are evolving rapidly.

WHICH OF THE FOLLOWING BEST DESCRIBES YOUR CURRENT BUSINESS SITUATION?

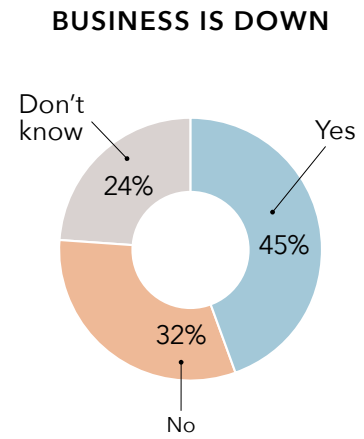
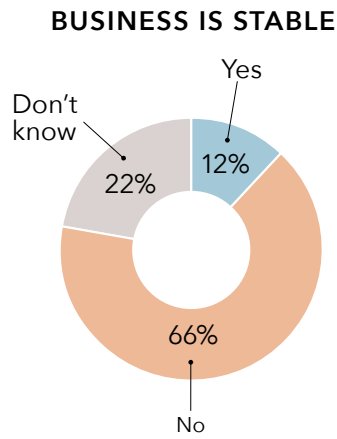
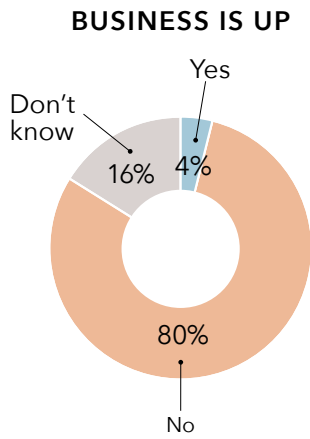
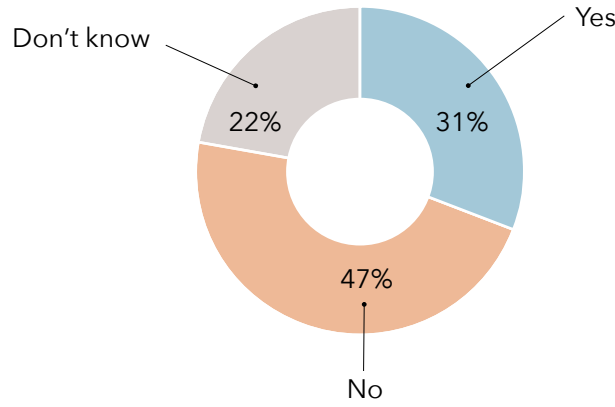


OVER THE NEXT SIX MONTHS, HOW DO YOU THINK YOUR BUSINESS WILL FARE?



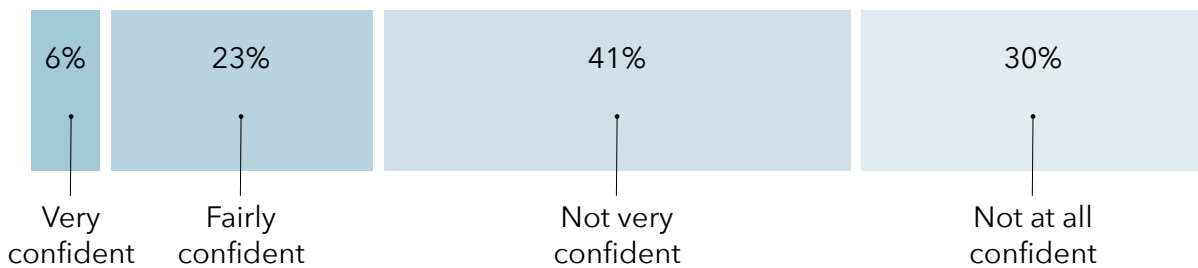
*Due to rounding, some numbers may not add up to exactly 100%

OVER THE NEXT SIX MONTHS, WILL YOUR BUSINESS NEED GOVERNMENT SUPPORT?



HOW CONFIDENT ARE YOU THAT THE SUPPORT ON OFFER FROM THE GOVERNMENT WILL KEEP YOUR BUSINESS GOING FOR THE NEXT YEAR?

Based on those who said that their business will need government support over the next six months



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There has been extensive use of government support schemes, with 63% of businesses making use of the Coronavirus Job Retention Scheme. 48% of businesses took the opportunity to defer VAT payments.

HAS YOUR BUSINESS USED ANY OF THE GOVERNMENT'S SUPPORT SCHEMES AND/OR LOANS INTRODUCED DURING THE LAST SIX MONTHS?

| | |
|---|-----|
| None | 23% |
| Coronavirus Job Retention Scheme (CJRS) | 63% |
| Deferred VAT payments | 48% |
| 2020/21 business rates holiday for retail, hospitality and leisure businesses and nurseries | 19% |
| Coronavirus Business Interruption Loan Scheme | 17% |
| Bounce back loans | 16% |
| Accessed HMRC Time to Pay scheme | 15% |
| Coronavirus business support grants for small businesses and for retail, hospitality and leisure businesses - administered by local authorities | 14% |
| Statutory Sick Pay to employees due to COVID-19 | 13% |
| Coronavirus Large Business Interruption Loan Scheme | 3% |
| Coronavirus Corporate Finance Facility | 0% |
| Future fund equity | 0% |
| Don't know | 1% |

This reflects an economy that is different now in some key respects. With widespread and ongoing government support there is an unprecedented connection between the role of government and private enterprise. As support schemes wind down, their withdrawal will need to be carefully calibrated to nurture future growth.

Hard choices will be faced as employment support reduces and payments become due for government-backed loan schemes. Some businesses will fail and many more will struggle. This will need careful handling to maximise opportunities for recovery. Despite the pressure and volume of issues to work through, it is all the more important that banks treat businesses fairly.

It is also an economy where tax will play a more significant role. As government's tax deferral schemes unwind and the debts again fall due, many businesses will come under pressure. In this context, the announcement in September of an extension to 2022 for repayment of VAT deferred in the initial crisis is welcome. Further deferral may be necessary, depending on how the economy fares.

HOW HELPFUL DO YOU THINK THE FOLLOWING POSSIBLE ACTIONS BY GOVERNMENT WOULD BE IN BOOSTING THE RECOVERY OF THE UK ECONOMY?

| | Helpful | Fairly helpful | Not helpful |
|---|---------|----------------|-------------|
| Reduction in business rates to help the High Street | 62% | 27% | 12% |
| Reduction in Employers National Insurance Contributions | 51% | 39% | 10% |
| Reduction in income tax and/or employers NIC | 38% | 38% | 23% |
| Further reductions in VAT rates | 37% | 40% | 23% |
| Increase in tax reliefs for capital investment | 30% | 43% | 27% |
| Reduction in corporation tax | 24% | 36% | 39% |
| Cut in CGT to encourage start-ups and entrepreneurs | 18% | 26% | 56% |

ICAEW has expressed concern for some time about key elements of the tax system. As the government seeks to support recovery and repair the fiscal position, these issues have never been more important. Underlying strains in the tax system have become more apparent in the crisis.

The survey results reveal significant challenges associated with business rates. The inflexibility of rates to reflect current conditions means that many businesses could face hardship when business rates are reintroduced for retail, hospitality and leisure businesses in April 2021. Urgent action is needed here. In the short term it may be time to look at whether the multiplier is now simply too high. 62% of respondents back a reduction in business rates to support the high street.

Our survey also showed that 51% of respondents feel a focus on employers' national insurance could help to boost the economy.

*Due to rounding, some numbers may not add up to exactly 100%

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Founded in 1880, we have a long history of serving the public interest and we continue to work with governments, regulators and business leaders around the world. And, as an improvement regulator, we supervise and monitor over 12,000 firms, holding them, and all ICAEW members and students, to the highest standards of professional competency and conduct.

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We believe that chartered accountancy can be a force for positive change. By sharing our insight, expertise and understanding we can help to create strong economies and a sustainable future for all.

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* Source: CAW, 2020 - Interbrand, Best Global Brands 2019