The Impact of Covid-19 on Northern Ireland Business Activity

Summary Report

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1 Introduction

1. The Covid-19 pandemic has resulted in a level of disruption to the economy beyond that experienced at any time during the last century. The impact has been felt across all sectors, with disruption arising from both supply and demand shocks. Businesses were forced to temporarily shut down and employees required to stay at home. This, combined with supply chain interruptions and changes in consumer behaviour, has substantially affected business operations and their viability.

2. In an unprecedented series of fiscal interventions, the UK Government and Northern Ireland Executive, have sought to support businesses through the crisis, including offering assistance towards key costs to reduce immediate cashflow problems. Despite the level of support, the medium to long term viability of businesses remains a concern.

3. As the pandemic continues to evolve and infection rates increase again, governments have had to change course, implement new policies and extend or amend existing measures. This increased need for agility from policy makers will continue for at least the next six to nine months.

4. This paper aims to identify the effects and vulnerabilities of firms arising from Covid-19 in terms of the initial lockdown and as economic activity resumes. The paper examines the impact on business activity across Quarter 2 (Q2) from both a sectoral and sub-regional viewpoint. It covers the following:

    - the impact on business activity;
    - assesses the level of uptake and value of the existing support measures;
    - highlights the key challenges faced by businesses; and
    - sets out policy suggestions.

2 Impacts on Business Activity

Temporary Closures

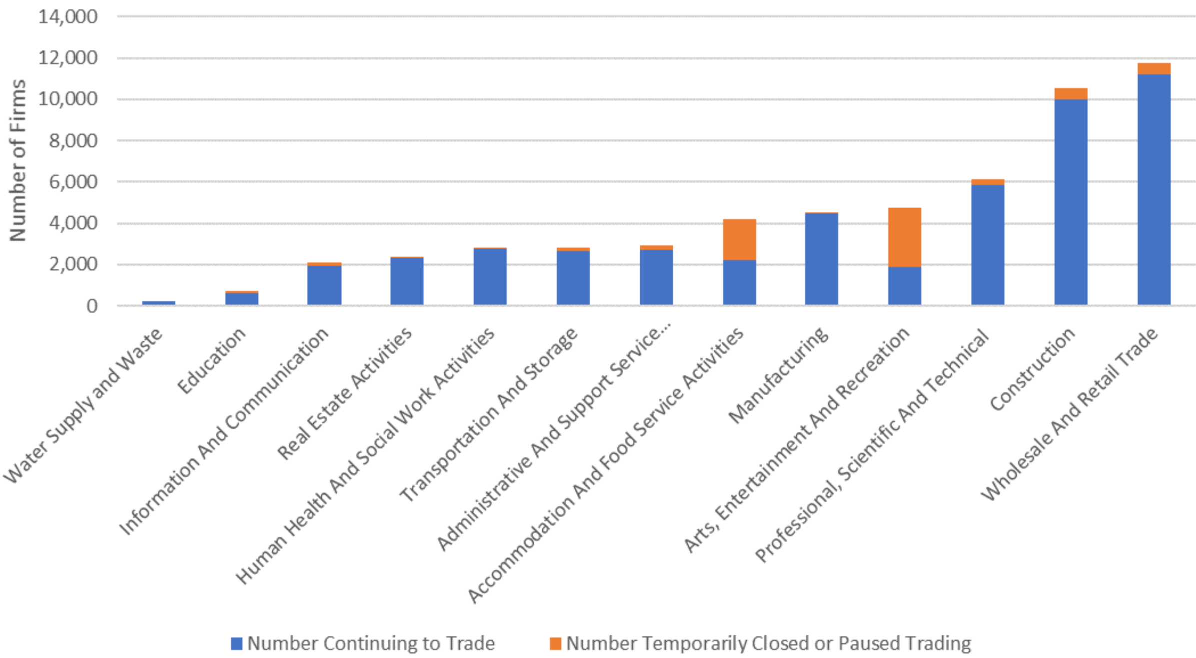
1. In response to the increasing coronavirus threat, measures to restrict non-essential travel came into effect in the UK in mid-March 2020 with a full lockdown enforced at the end of March. These regulations had an immediate impact on businesses, forcing some to close immediately.

2. In early April, during the initial lockdown, one in three businesses in Northern Ireland were temporarily closed. The two sectors most impacted, in terms of inability to operate, were 'Arts, Entertainment & Recreation' and the 'Accommodation and Food Service' sector. Approximately 80% of firms in each of these sectors were temporarily closed (just over 7,100 firms).

3. Over Q2 the proportion of businesses re-starting increased as restrictions were eased. **By 28 June, exactly three months after lockdown was introduced, one in ten businesses in NI remained closed or paused**.

4. Although most sectors had largely re-opened by end of June (Figure 2.1), the Accommodation & Food; and Arts, Entertainment & Recreation sectors were clear exceptions. Approximately half of Accommodation businesses and 60% of Arts & Entertainment remained temporary closed, a total of just under 5,000 businesses.

Figure 2.1: Trading Status by Sector in NI, 29 June – 12 July 2020



Source: UUEPC estimates based on BICS, ONS and IDBR

Turnover and Cashflow

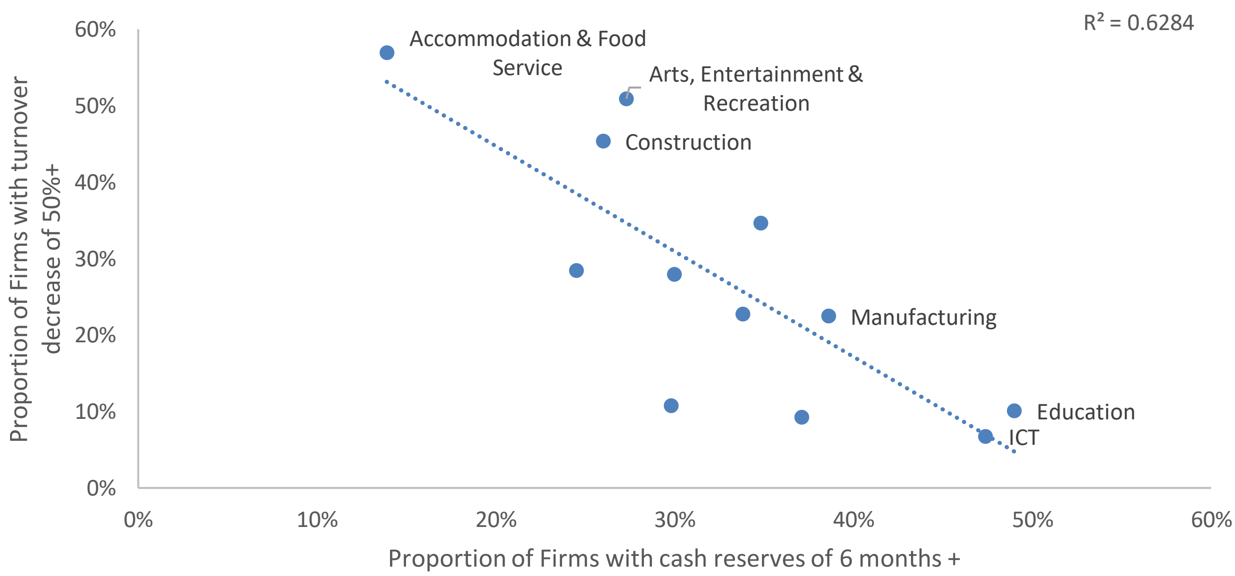
5. More than half (57%) of all NI firms that were able to continue trading, during lockdown, still experienced an immediate decrease in turnover. Of this group, 41% experienced a reduction in turnover of more than 20% with around half of those experiencing a drop of 50% or more. The impact on turnover decreased in the weeks that followed, but by the end of June, half of businesses were still experiencing a lower than normal level of turnover.

6. Unsurprisingly, **it was the highly consumer-facing sectors that experienced the largest turnover reductions**. At the UK level those included Recreation; Accommodation & Food; Passenger Transport, and Non-Food Wholesale & Retail, where sales were down between 50 – 80% in the Q2 period. Across all sectors, average turnover was down at least 20%.

7. **This also had an impact on cash reserves** and in NI only one in five businesses had cash reserves of six months or more at the end of April. In addition, around 10% of businesses had either no, or less than one month's cash reserves. By the end of Q2 the situation had improved marginally to 7%.

8. Sectorally, those most heavily impacted in terms of turnover loss were also those with lowest level of cash reserves; Accommodation & Food, Arts & Entertainment, and Construction.

Figure 2.2: Proportion of Businesses with Turnover Decreases of 50%+ versus Businesses with Cash Reserves of 6 months+(%), 6-19 April

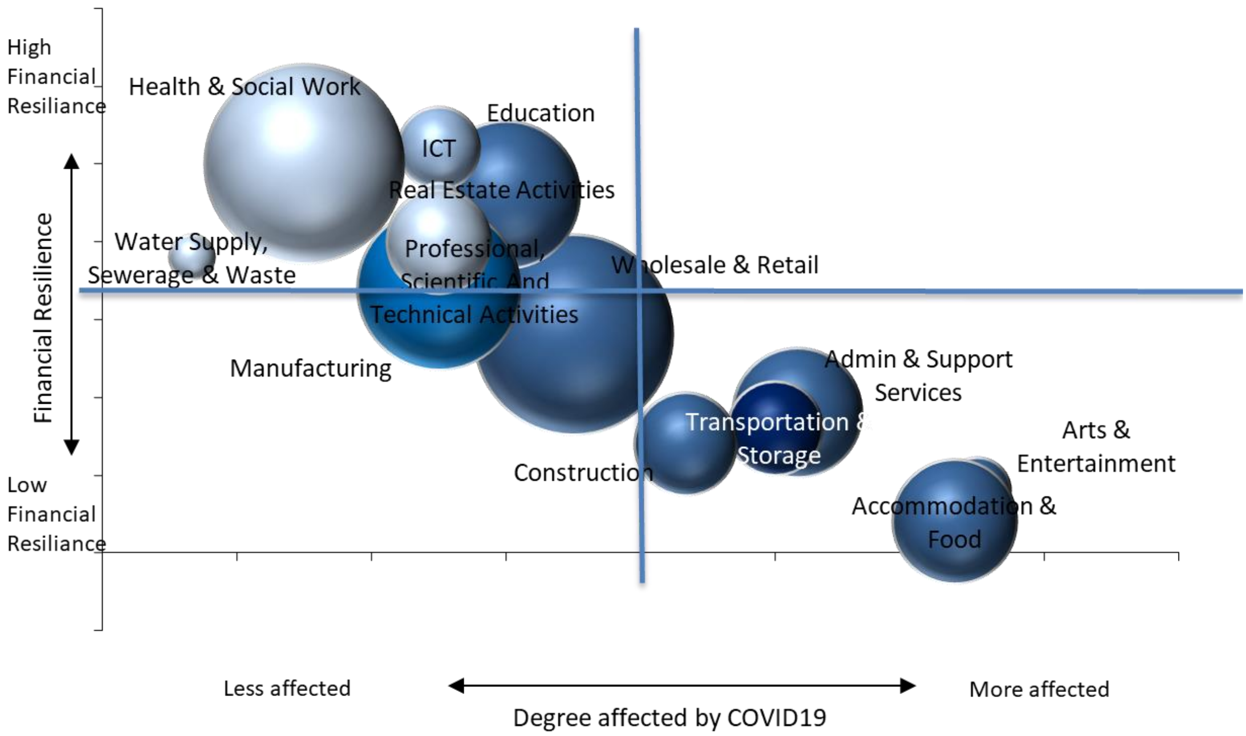


Source: BICS, ONS, UUEPC

Vulnerability

9. The vulnerability of businesses was determined by combining measures of financial resilience with estimates of the impacts of COVID-19 on workforce numbers, turnover and trading status. On this measure, by end of June the Arts & Entertainment and Accommodation & Food sectors remained most vulnerable to the effects of Covid. Business Administration & Support, Transport & Storage and Construction were also in a highly vulnerable position relative to other sectors (Figure 2.3).

Figure 2.3: Sectoral Vulnerability to Covid-19, NI, 15-28 June 2020



Source: UUEPC estimates based on BICS and ONS Workforce Jobs

10. The sectors proving most resilient financially were those least impacted in terms of business activity interruptions, which included the public sector, ICT and Professional Services.

11. However, **approximately 25,000 firms (around one third of all firms) fell within those sectors most affected and least financially resilient** at the end of June. These are predominantly micro-firms providing 200,000 jobs (around one quarter of the total) and generating £7bn in GVA (17% of total).

12. Table 2.1 below shows the Location Quotients (LQs) by Local Government District for those sectors identified as most vulnerable (an LQ greater than 1, represents a higher than average concentration, and is shaded in blue).

13. Sub-regionally Causeway Coast and Glens and Newry, Mourne and Down had higher than average employee concentrations in three of the five most vulnerable sectors. In addition, Antrim & Newtownabbey and Ards & North Down have very high concentrations of employees in Transport & Storage Arts & Entertainment respectively.

Table 2.1: Location Quotient Analysis by Local Government District of the Most Vulnerable Sectors, June 2020

	Accommodation & Food	Arts & Entertainment	Administration services	Transportation & Storage	Construction
Antrim & Newtownabbey	0.8	0.5	1.4	2.4	0.9
Ards & North Down	1.4	2.1	0.6	0.6	1.0
Armagh, Banbridge & Craigavon	0.7	0.9	0.9	1.5	1.1
Belfast	1.0	0.9	1.7	0.7	0.4
Causeway Coast & Glens	1.5	1.1	0.6	0.8	1.4
Derry & Strabane	1.0	1.2	1.0	0.7	1.0
Fermanagh & Omagh	1.0	0.9	0.3	0.9	1.3
Lisburn & Castlereagh	0.8	1.2	0.9	0.6	1.2
Mid & East Antrim	1.3	0.9	0.8	1.4	1.0
Mid Ulster	0.7	0.7	0.3	0.9	1.8
Newry, Mourne & Down	1.1	1.2	0.5	0.8	1.4

Source: UUEPC estimates based on Workforce Jobs

Exporting and Importing

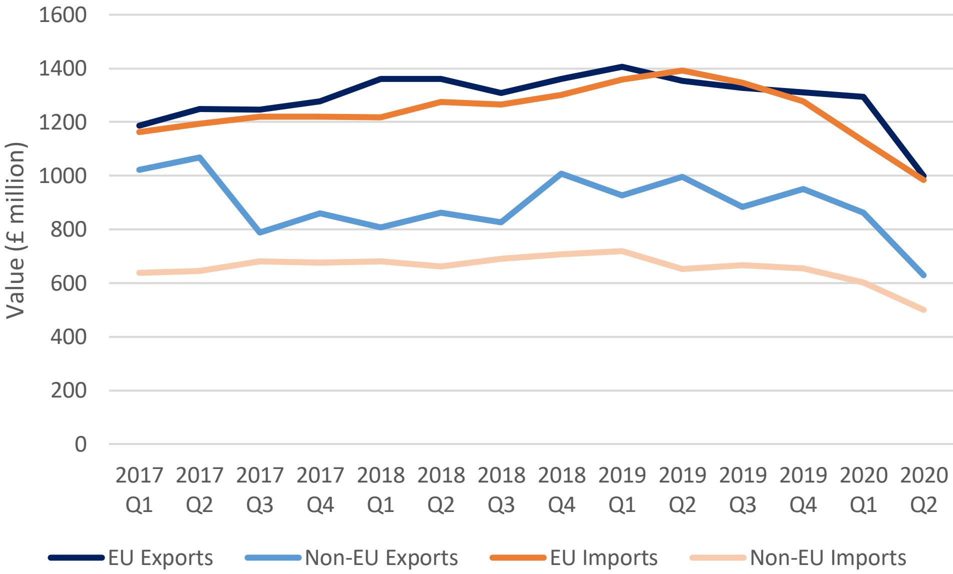
14. A minority of firms in Northern Ireland export and these are concentrated in the Manufacturing and Wholesale & Retail sectors. Manufacturing firms sell half of their goods outside the EU while Wholesale & Retail are engaged mainly in cross-border trade, with three fifths of sales to the Republic of Ireland.

15. BICS data indicates that **in late April almost 70% of NI firms were exporting less than normal and by the end of June more than half were still experiencing lower than normal export sales**. HMRC data confirms a 24% quarterly decrease in exports in Q2 2020 and a 31% decrease on the year. Exports to the EU, which comprise three fifths of the total, were down 23% in Q2 and those to non-EU countries down by 27% (Figure 2.4).

16. **Importing was affected to a lesser degree** during Q2. Whilst 60% of importers in NI were importing less than normal in April, this had dropped to 37% by the end of June. According to HMRC, imports fell by 14% in Q2 and were down 27% compared to Q2 2019.

17. Export sales fell for all commodities except Chemicals (+8%) over Q2. Machinery and Transport, which comprises 30% of exports, saw sales fell by 36% over the quarter. Food and Live animals, which accounts for one fifth of exports, had a 9% decrease in export sales. Each of these sectors comprise 22% of imports in Q2. The former saw imports fall by 24% during Q2 while the latter had a 3% increase

Figure 2.4: Value of NI Exports and Imports, Q1 2017 – Q2 2020



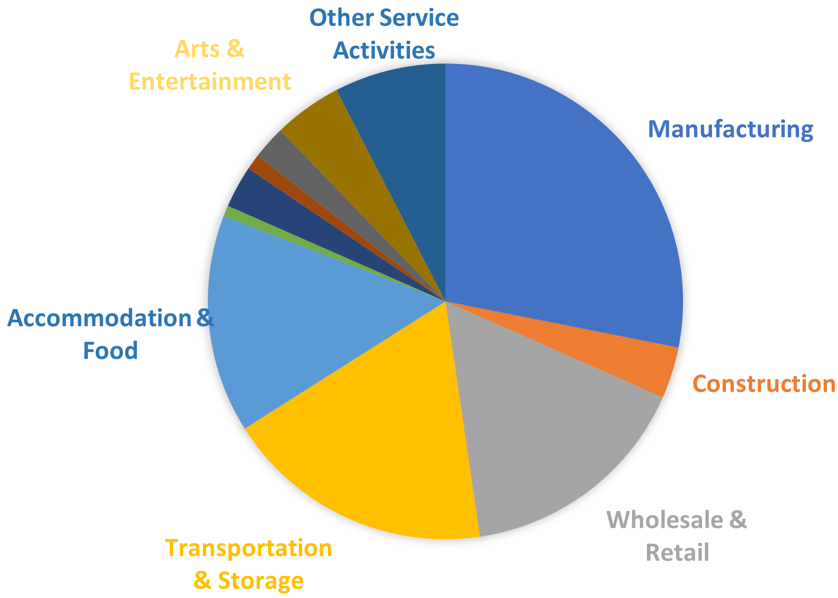
Source: HMRC

Redundancies

18. In total, 1,227 redundancies were confirmed in NI from January to July 2020, which was lower than for the same period the previous year (1,315). However, of particular concern, **half of those made redundant occurred in July alone**.

19. The confirmed redundancies to July 2020 **were concentrated in a relatively small number of sectors**, with approximately one quarter in Manufacturing and just under 20% each in the Accommodation & Food; Transport & Storage, and Wholesale & Retail sectors (Figure 2.5). The Accommodation & Food and Transport sectors are both identified as vulnerable, while Wholesale & Retail and Manufacturing are open to issues of financial resilience.

Figure 2.5: Confirmed Redundancies in NI by Sector, Jan – July 2020



Source: Labour Market Report, NISRA

20. It is likely that the scale of redundancies has been deferred due to the Coronavirus Job Retention Scheme (CJRS). As the scheme moves towards closure from October, the confirmed number of redundancies will likely increase in line with those proposed. **In the year to end of August 2020, 9,160 redundancies were proposed**, the highest number on record and included 700 proposed in August. Of further concern in the latest data release, a further 880 proposed redundancies were notified in the first two weeks of September alone.

Business Creation and Destruction

21. There were 2,585 business incorporations registered in Northern Ireland between 1 March and 30 June 2020, which was a decrease of 17% on the same period in 2019. However, the number of dissolutions also decreased, by 56% to 774, compared to the same period in 2019. The highest number of dissolutions occurred in the Wholesale & Retail, Construction and Other Services sectors.

22. The reduction in the number of dissolutions could be explained by a range of factors such as the business supports and payment deferrals offered by Government in addition to the deferral in filing company accounts. Therefore, whilst the **net new businesses created between March and June 2020 was up by 500 on the previous year**, it is likely that the

number of company dissolutions will increase as the business support and deferral schemes come to an end.

23. Company creation plays an important role in any economic recovery and therefore any reduction in start-up activity will likely have negative knock-on economic effects.

Business Outlook to end 2020

24. The outlook among firms for recovery is mixed. One business sentiment survey suggested that while 59% of firms in the devolved regions of the UK believe things will have returned to normal by Q4 2020, only two thirds are confident of survival. For the UK as a whole, 42% of firms believe the worst is yet to come, which is 7 percentage points higher than the view of consumers. **Only half of firms established in the last 5 years are confident they will survive**.

25. Businesses have identified the biggest barriers to recovery to include:
    - maintaining social distancing (particularly in dealing with customers);
    - global and local economic conditions; and
    - a lack of demand.

26. Construction businesses specifically identified a lack of visible pipeline for publicly funded work as a concern.

27. This relatively poor business outlook suggests investment levels and hiring intentions are likely to be low at least in the short-term, impacting the pace of recovery.

Returning from furlough

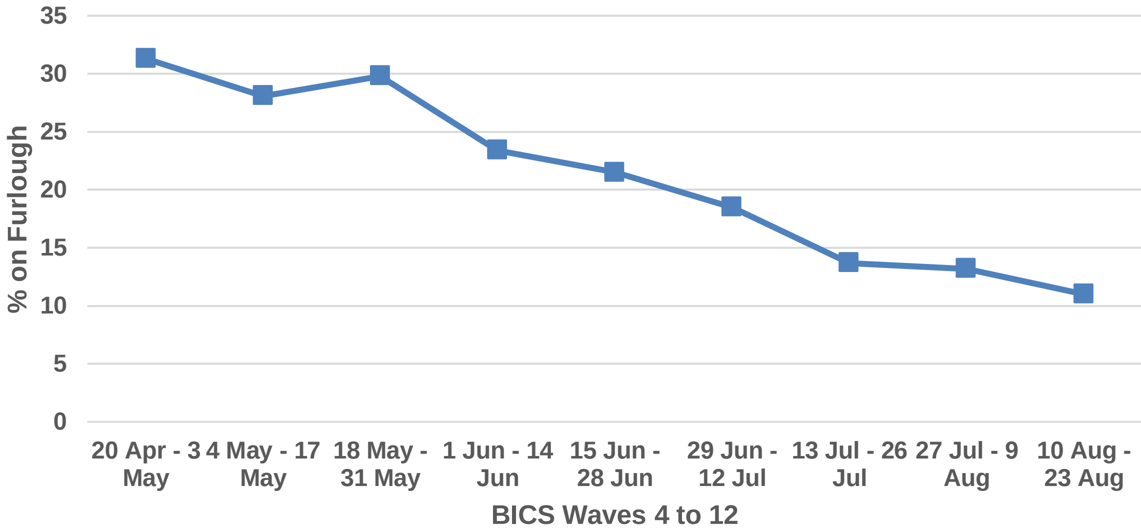
28. As noted above, the CJRS scheme has most likely delayed redundancies and business closures. At the time of writing it is difficult to estimate the scale of job losses once the scheme ends. As of 31 July, 102,600 employments in NI were on furlough, 13% of those eligible. Three quarters were fully furloughed and the reminder partially furloughed.

29. Those furloughed were evenly split between males and females. Although more females were eligible to be furloughed the take-up rate was lower than males at 12% compared to 14%. The NI female rate was lowest of the UK regions, with a UK average of 15%.

30. UK data from the Business Impact of Coronavirus Survey has tracked furlough numbers closely and most recently, the time-series suggests that by 23 August the share on furlough had fallen to 11% (Figure 2.6). That is

approx 80k – 85k jobs in NI. It is reasonable to assume that those jobs are likely the most vulnerable, given the proposed ending of the scheme at the end of October.

Figure 2.6: Proportion of staff furloughed in businesses still trading, UK, 20 April-23 August 2020



Source: ONS BICS; UUEPC

31. At the UK level, two fifths of employers were furloughing staff at end of July. Accommodation and Food Services had the highest number of employees on furlough at 942k or 43% of those eligible. Wholesale and Retail had 789k on furlough; due to the size of the sector this represented just 17% of those eligible. The highest take-up rate was in Arts, Entertainment and Recreation with 45% of those furloughed at that point, 303k employees.

32. By firm size, 29% of employees in micro-firms were on furlough at end of July compared to 10% in the largest employers, therefore smaller firms seem to be more reliant on the furlough scheme for support.

3 The Uptake and Value of Existing Support Measures

1. The UK Government has put in place a wide range of fiscal interventions to support businesses through the pandemic, including loan, equity and grant funding supports as well as tax deferral measures. The devolved administrations added to these measures with their own supports, tailored to the needs of their economies, funded through the 'Barnett consequentials'. Table 3.1 shows the value of the main existing supports in Northern Ireland; including rate relief. These supports were worth £2.7bn to businesses (equivalent to 6% of GVA).

Table 3.1: Uptake and Value of Main Existing Support Measures (to 2 Aug 2020)

Scheme	No. of Jobs/ People/ Firms	% Uptake	Total Value (£)	Average Value
CJRS	249,600	32%	£890m	£3,565
SEISS[ⱡ]	78,000	81%	£223m	£2,900
CBILS	836		£238m	£284k
BBLS	25,491		£809m	£31,738
£10k Grant	23,909		£239m	
£25k Grant	2,943		£72m	
Micro-Business Hardship Fund			£22m	
Bus. Rates Relief			£213m	
TOTAL			**£2,706m**	

Source: HMRC CJRS & SEISS, British Business Bank, Department for the Economy, Department of Finance

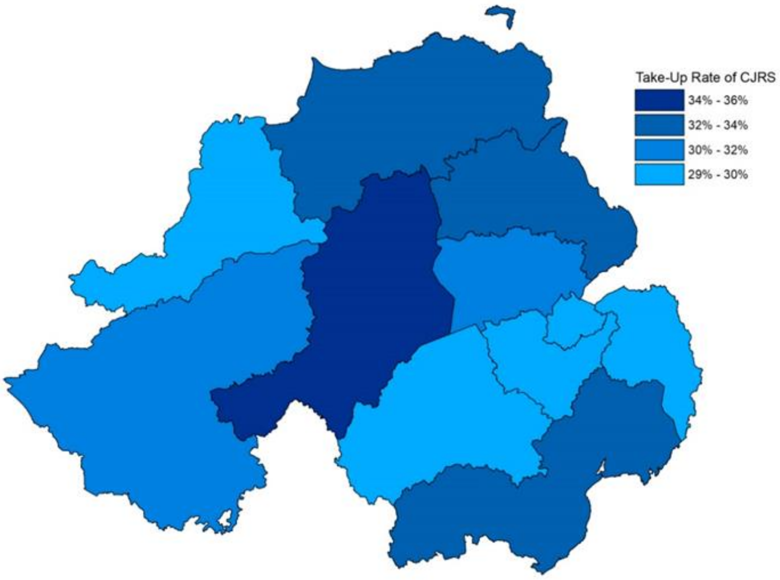
ⱡ SEISS relates to the phase one grant only

2. As in the UK, the Bounce Back Loan Scheme (BBLS) and CJRS were the two largest schemes in Northern Ireland accounting for an estimated £900m and £800m respectively.

Coronavirus Job Retention Scheme (CJRS)

3. As noted above, the CJRS supported approx. 250k 'employments' and at its peak, 32% of the total eligible. This was consistent with the overall UK average, but varied across council areas within NI.

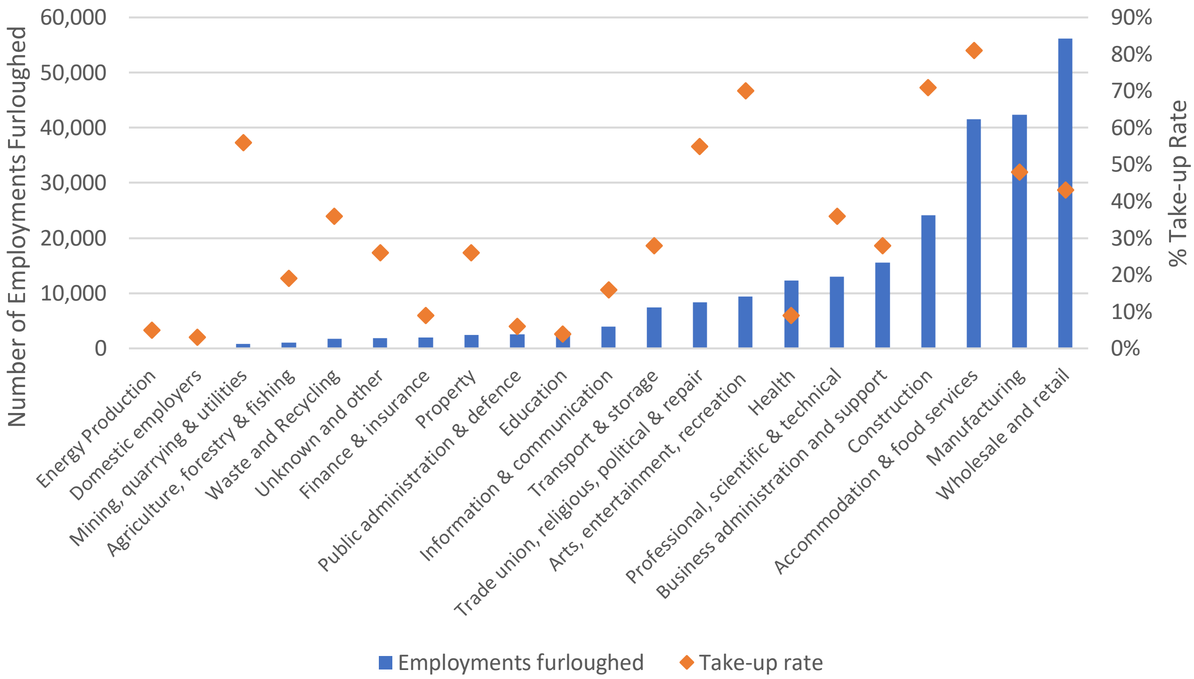
Figure 3.1: Take-up rate of CJRS by NI Council area (to 31 July)



Source: HMRC CJRS and PAYE Real Time Information

4. Sectorally, the largest number of employments were furloughed in the Wholesale & Retail sector (Figure 3.2). The Accommodation & Food sector was most reliant on the scheme with 81% of all jobs in the sector furloughed. The Arts & Entertainment and Construction sectors also furloughed a significant majority of their employees (with take-up rates of 70% and 71% respectively).

Figure 3.2: Number of Employments Furloughed and Take-up Rate of CJRS by Sector in NI, to 31 July



Source: HMRC CJRS and PAYE Real Time Information

Self-Employed Income Support Scheme (SEISS)

5. The first phase of SEISS had very high levels of uptake (81% compared to a UK average of 77%). This is unsurprising given the flexibility of the SEISS which allowed those eligible to continue to work, leaving little reason not to apply.

6. Males comprised 73% of the total eligible population for SEISS in NI but accounted for 75% of claims and 79% of the total amount claimed. A lower share of females claimed than were eligible with an average take-up rate of 77% compared to 83% for males. In total males claimed £58.2m compared to £19.7m for females; the average amount claimed by females was also lower, at £2,400 compared to £3,000 for males.

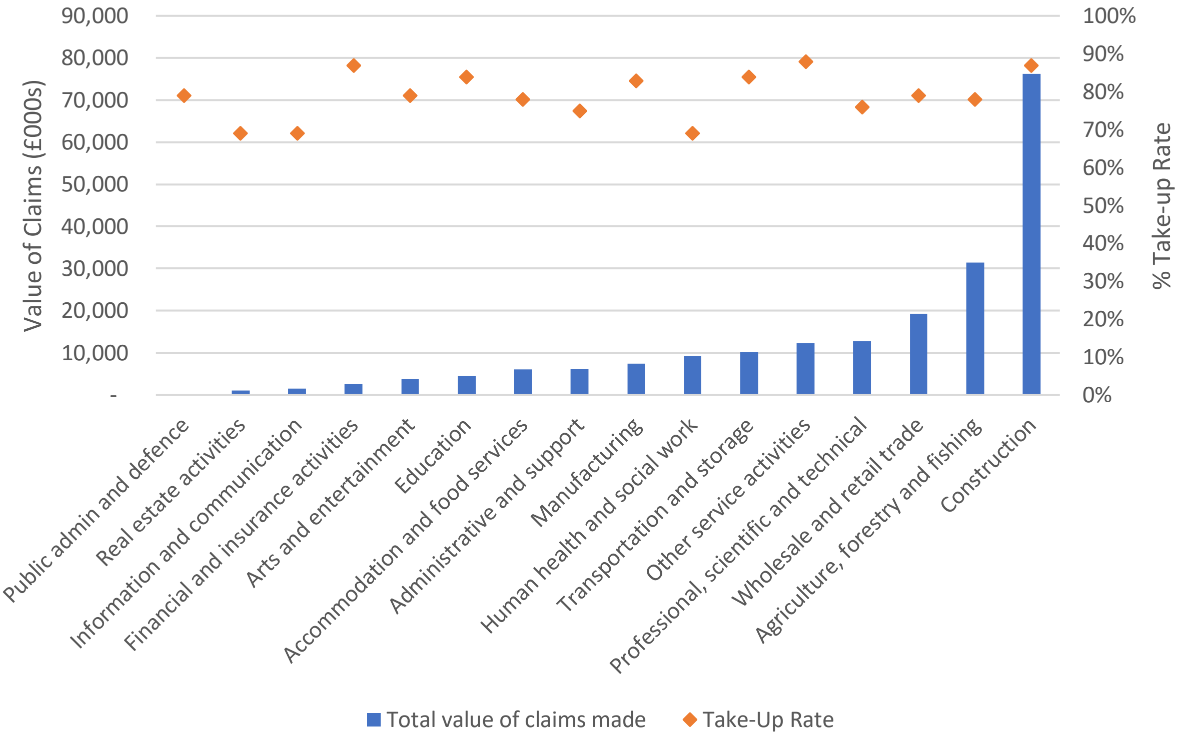
7. The highest value claimed by age group was for those aged 45-54; males in this age band claimed £45m in total compared to £14m for females.

8. At a sectoral level, the analysis shows that the highest levels of uptake were in the Construction and Agriculture sectors, reflecting the high levels of self-employment within these industries (Figure 3.3).

9. A negative, as highlighted through the consultations, was the ineligibility of certain categories of the self-employed to access the grant scheme including those new to self-employment and those taking payments in dividends. The latter were eligible to furlough themselves, if also salaried and on the PAYE

scheme, however, were then subject to restrictions on working in the business.[1]

Figure 3.3: Value of Claims Made and Take-up of SEISS by Sector, Northern Ireland, to 31 July



Source: SEISS, HMRC

Coronavirus Business Interruption Loan Scheme (CBILS) and the Bounce Back Loan Scheme (BBLS)

10. The average loan size in NI across both the CBILS and BBLS schemes is higher than the respective UK averages. The average CBILS loan in NI is 24% above the UK average and the average BBLS loan is approximately 4% above the national average. The level of uptake in both loan schemes was in line with the national share – NI accounts for 2% of the total loans offered in both schemes which is equivalent to NI's share of the UK business population.

11. The consultation exercise undertaken as part of this research supported the quantitative analysis that the BBLS was more popular than CBILS and was easier to access. However, concerns were expressed in terms of taking on

[1] Furloughed directors were only permitted to undertake duties related to fulfilling statutory requirements for their business. This was less of an issue from 1 July when they could be brought back on a part-time basis.

debt (particularly when the demand environment remains so uncertain), the cost of the debt and the ability to repay.

Grants for employees but loans for employers/ shareholders

12. There is an important distinction in the UK Government's support to business that appears to have gone relatively unnoticed. The Government has offered grants to companies to support employment, but has only offered loans to support shareholders. The taxpayer will therefore incur the cost of supporting 'labour' but the providers of 'capital' have to bear the cost of loans from future profits. A debt write-off would 'nationalise' those costs (which may be necessary/ appropriate if the economy fails to recover sufficiently strongly), but a lack of understanding of this differential means the merits or otherwise of this potential decision are not being debated. The Chancellor's most recent statement on 24 September, extended the payback period for both BBLS and CBILS (for SMEs) suggesting a debt write-off is even less likely to be considered.

13. Separately but related, there has been some discussion in the UK about the potential scale of default and the need for a debt forgiveness scheme. The primary reason given is that it could give businesses additional headroom to increase investment. However, it is not clear if this benefit would materialise because, as noted elsewhere, the key barrier to investment is the uncertainty around future demand, rather than a lack of available finance. To prevent a rise in 'zombie firms' as seen after the 2008 recession, equity-based solutions, earnings-based profit taxes and the creation of a government body for toxic debt are amongst the alternative solutions being discussed.

£10k and £25k Grant schemes – NI only

14. The 10k scheme was open to a larger number of business – those with properties with a Total Net Annual Value (NAV) of £15k or below. In contrast the £25k scheme was targeted at the Retail, Tourism, Hospitality and Leisure sectors only with properties with a Total NAV of £15k - £51k.

15. The consultations highlighted the importance of these schemes to businesses, with the cash accessed relatively easily and without undue bureaucracy. The primary shortcoming of the £25k scheme was identified as affecting those with multiple properties who were only entitled to a single payment of £25k, unlike businesses in GB who were given an allowance per shop. This issue has been raised and publicised previously. In addition, many social enterprises were also identified as ineligible from the grants, although the Micro-business Hardship Fund and a £7m targeted support fund was introduced to help mitigate the impacts.

Sub-regional patterns

16. Across NI, the level of uptake and use of the support schemes varied. Although Belfast City Council area had the largest number of residents[2] on furlough (44,100), it was proportionally behind Mid Ulster, which had the highest share of locally employed resident furloughed (36%), followed by Causeway Coast & Glens, and Newry, Mourne & Down, (both on 34%).

17. There was also some sub-regional variability with the SEISS. Take-up rates across NI were generally high, ranging from 79-83% of the eligible population. Newry, Mourne & Down had the highest uptake, with a total of 10,200 claims (83% of the eligible self-employed) and also the largest share in value terms with £30.2m claimed, 14% of the Northern Ireland total.

18. The scale of Belfast is clear from the sub-regional data for loans and grants available to business. For example, within NI, the largest number of CBILS loans were made in the South Belfast parliamentary constituency (94 loans totalling £29m). In terms of BBLS loans (also reported by parliamentary constituency rather than Council area), the highest number awarded was in the Newry & Armagh (2,497 loans totalling £88.3m).

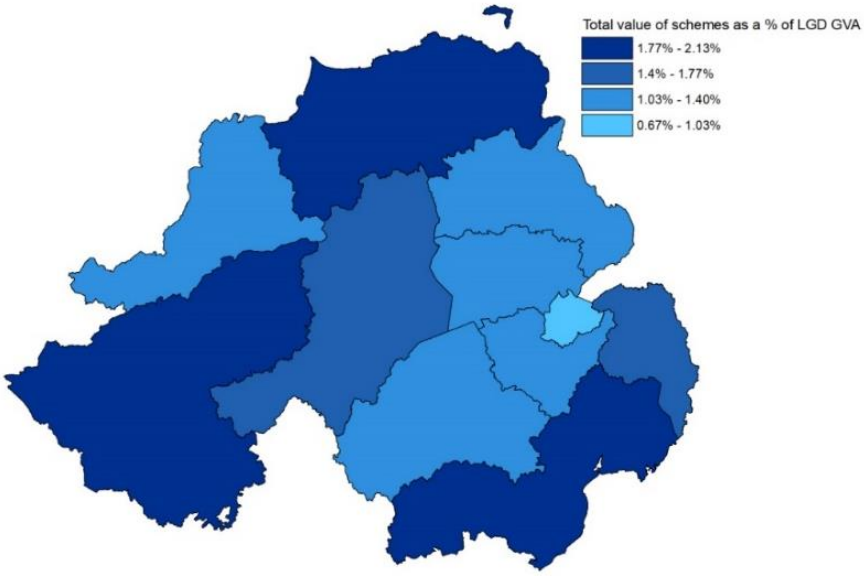
19. As CBILS loans are larger than the BBLS loans and therefore typically targeted at larger companies, which tend to locate in urban centres, it is unsurprising that Belfast has attracted the largest number of CBILS loans.

20. In terms of the £10k grants awarded, the numbers per Council area ranged from 1,453 in Antrim and Newtownabbey to 4,339 in Belfast. Overall, the share of £10k grants by LGD is broadly in line with the areas' share of small firms. Moving to the £25k grants awarded, the highest number was also in Belfast at 694, representing £17.2m in value. In general, approval rates were high ranging from 78% to 85%, with little variability by Council area.

21. The sub-regional data displays some variability in take-up of supports, but not enough to suggest that some areas fell behind when accessing assistance. Although some sub-regions were more reliant on the schemes (Figure 3.4) consultees suggested that any variability which does exist (e.g. higher shares of CJRS in Mid Ulster or SEISS in Newry, Mourne & Down) is best explained by the sectoral concentrations within Council areas.

[2] The CJRS data refers to the resident location of the job-holder rather than the job location.

Figure 3.4: Combined Value of SEISS, £10k and £25k Schemes as a % of GVA by Local Government District



Source: SEISS, HMRC, DoF, DfE, UUEPC estimates

4 Key issues faced by business

1. A series of consultations were carried out with sectoral and wider business representative organisations in July and August 2020 to gauge the impact of Covid-19 on businesses, and the supports which may be necessary both for re-opening and for longer-term sustainability.

Costs of re-opening were significant

2. The main costs for all businesses (across sectors and business size), were associated with re-opening, this includes spend on alterations to premises to meet social distancing requirements and in some instances PPE. There were some sectoral nuances, for example industries such as Construction, Manufacturing and Agri-Food had specific requirements around creating a safe environment for staff, but consumer-facing businesses also had to consider the additional requirements of meeting public health obligations for customers. Typically, the behaviour and movement of staff on premises is more easily controlled than that of customers.

3. Re-opening clearly allows for a return to trading and therefore the process of recouping these costs can begin, but it raises a separate issue in terms of the impact on businesses if greater restrictions or (in a worst case scenario) a second lockdown is enforced. In some instances, businesses have stayed closed after restrictions were lifted to avoid the prospect of incurring significant re-opening costs only to face the prospect of closing their business again.

Long-term concern over lack of demand

4. Several consultees, across all sectors indicated that demand has been suppressed and that the business supports would not cover the income lost. In sectors such as Construction and Manufacturing, business owners could not see 'a pipeline of work' moving forward.

5. Furthermore, social distancing requirements in sectors like Accommodation & Food and Arts & Entertainment will continue to impact demand and constrain supply as long as the public health crisis remains. As a result, there was strong support for schemes that would support demand – similar to the 'Eat Out to Help Out' scheme.

6. In addition, **not all geographic areas have been impacted equally**, locations reliant on high levels of footfall and congregation of people (such as city centres) have been worst hit. This in turn raised the prospect of the need for 'place-based' strategies to be considered alongside other measures introduced to date.

Moving on-line does not work for all sectors

7. COVID has had a significant impact in pushing businesses increasingly down a technology-led route as they access customers through digital rather than physical channels. This may hasten already established trends in areas such as the retail sector, but the transition on-line is not possible for all sectors. For example, it is very difficult to monetise and/or provide the same level of service on-line in the Hospitality industry and many parts of the Arts & Entertainment sector.

8. This is important when considering the suite of interventions to 'build back better'. In many instances, supporting businesses to return to their pre-COVID business models will be inappropriate, but in other cases the alternatives are limited.

Impact on supply chains

9. COVID has also represented a challenge to supply chains, several consultees indicated their vulnerability and the issues associated with restarting/ re-establishing supplies that were immediately shut down in the wake of the pandemic.

10. It is also recognised that this creates a potential opportunity as firms seek to shorten and simplify their supply chains and create greater resilience by sourcing inputs closer to home.

Limited prospects in a 'V-shaped' recovery

11. After an initial burst of re-opening activity, very few businesses are anticipating a sharp or 'V-shaped' recovery in 2020-21, primarily due to concerns over demand (the point raised previously). This in turn will have the impact of reducing business investment levels which further impacts economic growth.

12. In addition, some sectors (such as Childcare, Arts & Entertainment and parts of Manufacturing) expressed concerns about skills being permanently lost as employees are laid off, which in turn could impact longer term recovery.

Jobs at risk when the furlough scheme ends

13. Business support interventions generally were welcomed and the CJRS scheme was the most extensively used. Latest estimates would suggest well over two-thirds of those placed on furlough have now returned to work, but there is concern about the longer-term prospects for those who currently remain on furlough when the scheme ends.

14. This policy is outside the scope of the NI Executive, but given its importance it merits discussion.[3] Balancing the needs of protecting businesses and jobs and managing the ballooning public deficit is a difficult challenge. Furthermore, an extension of the scheme may simply be delaying the inevitable in some instances, which is not advantageous to the firm, their staff or the taxpayer. That said, the consultations highlighted a need for some form of extension to support jobs and this message has now been heard by the Chancellor with the announcement of a new Job Support Scheme to take effect from November.

15. Under the new **Job Support Scheme**, the government will subsidise the salaries of employees who are working reduced hours because of lower demand. To be eligible staff have to work at least a third of their usual hours and for the hours employees can't work, the government and the employer will each cover one third of the lost pay. The Government subsidy is capped at £697.92 per month.

16. The aim of this scheme is to protect viable jobs, consistent with the comments above, but, given the one-third employer contribution for not working, there is a risk that firms may retain full-time staff and let part-time staff go. This will only become clear in November and December.

Positive views on the immediate policy response but less confident about the longer-term response

17. The consultations indicated a recognition of the challenges ahead and an understanding that individual sectors often have specific needs (some of which will be addressed at a national rather than a devolved level). There was praise for the quick response in terms of Covid-specific supports for businesses (e.g. the grant schemes and rates relief) but there was a concern about the lack of firm plans agreed at the Executive level for a longer-term response.

Re-skilling staff and business leaders is critical

18. There was a recognition that Covid-19 has highlighted the need for firms to have the ability to respond to challenges as quickly as possible and reinforced the need to re-skill both staff and business leaders. This would help businesses respond to change and re-purpose activity to future areas of growth (e.g. through the increased adoption of technology).

[3] This question will be the subject of a future paper from the UUEPC.

5 Summary and Policy suggestions

Summary

1. Business activity remains suppressed with many businesses still trading below normal expectations and cash reserves have been stretched. In addition, an estimated 80k – 85k jobs remain on furlough alongside a significant increase in proposed redundancies being notified to the DfE in the last six weeks. The current annual number of proposed redundancies is now the highest on record. This also has to be set in the context of the re-imposition of restrictions this week.

2. Business start-up activity had slowed and the support schemes have most likely postponed some business closures. This is a critical issue as business start-up activity is fundamental to a strong economic recovery.

3. The sectors most highly impacted are Accommodation & Food and Arts & Entertainment which were heavily reliant on the furlough scheme over the summer period as restrictions were lifted elsewhere.

4. Whilst business support schemes were very welcome, there is recognition that further funding cannot sustain every struggling business and therefore the next phase of public support should be focused on business recovery which requires alternative measures.

Policy suggestions

5. The following policy suggestions have been identified to support medium and longer term recovery:

   - **Encouraging entrepreneurship through a discretionary fund to support new business starts** – strong business start-up activity is an important foundation to any economic recovery but given the current higher levels of economic uncertainty, accessing finance is very challenging. In addition, it is estimated that 38% of UK self-employed were not eligible for the SEISS, including those recently self-employed. Ineligibility from accessing grant schemes alongside the other accessing finance issues could have a detrimental impact on encouraging future entrepreneurial activity. Therefore, a discretionary fund to support new starts, who have thus far been ineligible to access existing schemes could encourage a pipeline of new business activity.

- **Supporting local businesses and social enterprises through government procurement and delivery of public services** – issuing grants to businesses was the appropriate policy response in the immediate aftermath of the pandemic, but this is not sustainable in the longer term and does not support economic recovery. One of the key concerns expressed by businesses was a lack of demand and a lack of a visible pipeline for publicly procured work. Therefore, an opportunity exists to create demand through public procurement as an alternative means to support businesses and social enterprises.

  'Buying local' plays an important role in economic recovery as the money is retained within the local economy and supporting employment. Given the increased demand for public services (which went unmet because of the interruption caused by Covid-19) and the scale of government purchases generally, encouraging and supporting local businesses and social enterprises to engage in government procurement exercises and public service delivery could support broader economic recovery as well as meet the demand for public services.

- **Supporting demand more generally** – the consultations identified the need for a comprehensive approach to recovery, particularly when addressing the issues faced by the sectors most impacted by the pandemic – Accommodation & Food; and Arts & Entertainment. The biggest issue these sectors currently face is lack of demand (particularly in urban centres) and this could be supported for example with a voucher or reimbursement scheme (following the success of the 'Eat Out to Help Out' scheme).

  Other measures such as providing support to help businesses with their marketing to boost demand, particularly in developing online offerings to enter new markets

  Finally, facilitating staff to return to their offices, perhaps on a 2 to 3 days per week basis initially, will be important but it is recognised this may still be some time away as any changes need to be guided by the current health advice and applied only when appropriate to do so.

- **A need to reconsider who and what to tax** – the initial four-month blanket business rates holiday, followed by a further eight months of targeted relief for specific sectors was only ever intended as a short-term measure to assist businesses through the initial impacts of the pandemic. However, the move to increased working from home and greater online retail activity has significantly accelerated trends (and challenges) already established pre-Covid.

Moving forward, many businesses are likely to question the need for large offices, particularly given the increased discussion of a shift to a hybrid home-office working future. This suggests an acceleration in the change of use of town/ city centre properties from office and retail to other uses such as residential, leisure, tourism, hospitality and the arts.

In addition, the changes in consumer and worker behaviour will have significant implications for non-domestic rates and rent regimes. Consequently, governments' approach to raising revenue from property taxes needs to be reconsidered to align with the future strategic vision for urban centres.

Reducing the non-domestic rates burden would require an increase elsewhere. This could include increasing the domestic rates burden and/ or other alternatives have previously been mooted – these include an increased sales tax, profit tax, energy tax, land value tax, or digital tax. Each of these ideas also have negative consequences which need to be considered in the round, and may require intervention at the national level, but the challenges with business rates which existed pre-Covid, have only been exacerbated by the pandemic.

- **Place-based solutions** – following on from the point above, in addition to sectoral-based analyses to identify those in need of greatest support, a better understanding of the geographical areas most impacted is also important. There is a lot of anecdotal evidence that suggests local/ sub-urban 'high streets' have seen a much stronger recovery than the large urban centres as people are working and staying closer to home. This raises the prospect of a longer-term geographical shift in demand and a potential re-think in the areas identified as being in need.

- **Develop business leadership skills** – equip business leaders with the skills to adapt, innovate, adopt new technologies, create new income streams, develop new markets and improve staff management.

  The development of business leadership and management skills would have longer term impacts on the economy in terms of creating more sustainable businesses (and hence employment) and embedding resilience into the business owner mindset. An equivalent to the Small Business Leadership and Peer Networks programme, as announced in England, would help to develop strategic leadership skills and give business owners the confidence to make informed decisions to aid survival and improve business performance.

- **Deciding which sectors to support in future** – whilst issuing grants across the board is not sustainable in the long term, conditions may exist where targeted support may be justified:
  - Sectors which are still subject to significant public health restrictions; and
  - Sectors which are of long-term strategic importance to the local and national economy and where barriers to entry are high. In many cases if a business closes because of a lack of demand, a new business will take its place when demand returns, but in some sectors, due to barriers of entry, if the business closes it is highly unlikely to re-open when demand returns (e.g. aerospace).
- **Supporting business to deal with challenges highlighted in the age of Covid-19** – businesses have faced a challenging 6 months already and will continue to do so moving into 2021 with payment deferral periods ending and loan repayments due. While businesses will be focused on day-to-day operations for survival, the consultations regularly referred to some issues and challenges which, while ever-present in businesses, have been further highlighted by Covid-19. For example, consultations highlighted how the shocks associated with Covid-19 had brought new challenges around managing teams remotely and had pushed mental health among business owners and general health and safety for employees higher up the agenda. Support for businesses to address some of these less obvious Covid-related challenges could further underpin recovery.