IoD July Statement Submission

Business and Economic Context

Business leaders' confidence in the economy, and in their own organisations, are at record lows. (**Figure 1**). Firms attributed the negative outlook to the Covid-19 outbreak and challenging domestic and international economic conditions.

Directors anticipate reductions in revenue, hiring, and investment in the coming 12-months, with these indicators also at all-time lows (**Figure 2**).

The primary drivers for the pessimistic outlook include:

- **Weak cashflow forecasts**: As firms attempt to rescale following lockdown, by taking staff off furlough and reopening production lines, rising costs will come up against weak demand conditions.
- **Challenges under social distancing**: Around 1 in 4 of our members expect to operate at less than half pre-lockdown activity levels under social distancing. The measures will lower consumer footfall, limit capacity utilisation, and involve workplace and business model adjustment costs.
- **Crisis legacy effects:** Many firms will need to repair balance sheets before pursuing growth strategies:
    - Businesses have been using cash reserves and bridging support from the Government to stay afloat during the pandemic.
    - Around 1 in 5 of our members have been unable to access any support due to ineligibility or unsuitability and face a starker challenge to survive and rebuild[1].
    - Debt and payment deferrals incurred over the pandemic will also restrain business activity. Over 50% of directors said the debt incurred over the crisis, such as from BBLs and CBILS, will have a negative impact on their recovery and investment plans[2]. Likewise, over one-third felt tax, rent, and other deferrals would negatively affect their recovery and investment decisions.
- **Uncertainty:** Concerns over new spikes in Covid-19 cases, both at home and abroad, with a potential return to lockdown measures, will limit activity alongside uncertainty around economic conditions and Brexit
- **Global conditions:** Continued stresses in global trade, travel and supply chains will limit the scope for businesses with international markets and stakeholders

Policy Recommendations

After providing significant life-support for businesses during the economic trough, the government will need to provide additional stimulus to amplify the economic recovery. Policy should focus on cushioning ongoing cash flow difficulties, supporting businesses to adjust quickly, and enabling firms to adopt

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[1] https://www.iod.com/news-campaigns/press-office/details/Gaps-in-coronavirus-support-for-business-need-to-be-filled

[2] https://www.iod.com/news-campaigns/news/articles/IoD-survey-Business-debt-will-slow-recovery-without-action

growth strategies through hiring and investment incentives. The IoD's key near-term recommendations include [Please see our inquiry submission to the treasury committee for further details]:

- **A 'Recovery Grant' scheme:** The £617mn Discretionary Grant fund should be increased and expanded to extend grants to businesses that; have not yet received support during the crisis[3], need to cover ongoing costs, or require costly workplace adjustments for social distancing. This would be in line with Wales' Economic Resilience Fund and Northern Ireland's Micro-business Hardship Fund.
- **Business investment incentives:** Businesses will require greater tax incentives to invest in technology, training, and in adapting their business models. For example via a special allowance that allows firms to offset more productivity-enhancing expenditures against tax liabilities, or the SME R&D tax relief definitions might be widened. More broadly the £1mn Annual Investment Allowance cap ought to be extended, or even raised, beyond 2020 to support investment by all businesses.
- **Reducing employment costs:** A further increase in the Employment Allowance, or support for National Insurance payments more generally, will assist cash-strapped firms to retain and hire staff.
- **Support scale- and start-up investment:** The Enterprise Investment Scheme and Seed Enterprise Investment Scheme reliefs should be made more generous, accessible, and simple. Improved packages would provide support for start-ups at time when finding equity capital will be challenging, but also when growth, hiring, and innovation is even more crucial.
- **Easing the burden of business debt:** Forthcoming debt interest payments will restrain firms' recovery and investment prospects. Loans could be restructured to enable firms to return to growth and make repayments, for example through profit participating debt structures[4].
- **Promote sustainable business:** Press forward with plans to require all commercial companies with a premium listing to either make climate related disclosures consistent with the approach set out by the Taskforce on Climate-related Financial Disclosures (TCFD) or explain why not. Such an approach would burnish London's reputation as a centre for global trade and attract inward investment from ESG-oriented institutional investors.

Over the longer-term our members' priorities focus on enhancing the productivity of the UK economy and businesses. This includes: investment in road, rail, and digital infrastructure; supporting technology diffusion and R&D in SMEs; enhancing upskilling, lifelong learning, and management skills offerings; supporting exporters and supply chains; and simplifying the tax system and regulatory burden on SMEs. Please see our Budget 2020 submission for further details.

[3] https://www.iod.com/Portals/0/PDFs/Campaigns%20and%20Reports/Economy/IoD%20Treasury%20Committee%20response%20-%20Economic%20impact%20of%20Coronavirus%20response.pdf?ver=2020-06-11-141938-687

[4] https://www.iod.com/news-campaigns/news/articles/IoD-survey-Business-debt-will-slow-recovery-without-action

Appendix

Figure 1: Confidence, Net %

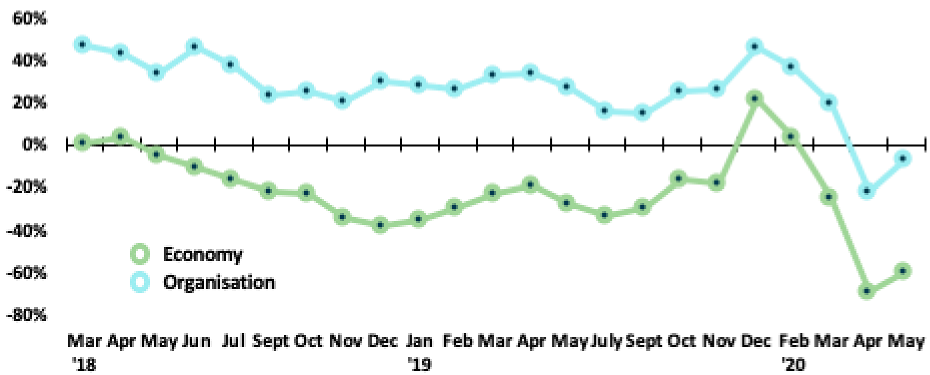

Figure 2: 12m Expectations, Net %