



# HOW IS THE PANDEMIC AFFECTING LOCAL BUSINESSES?

Scotland's GDP figures over the past few months have been:

- a decrease of 5.8% in March
- a significant decrease of 19.2% in April
- an increase of 2.3% in May
- an increase of 5.7% in June

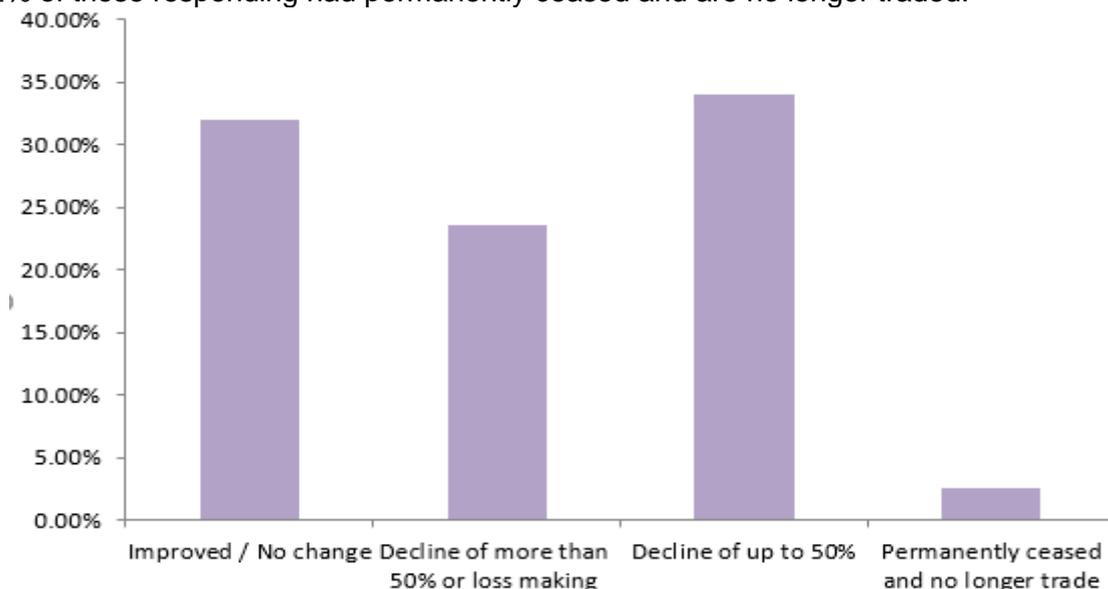
This resulted in GDP at the end of June being down 17.7% overall on February's level.

The UK suffered its largest quarterly contraction in the economy since records began in 1955. The Scottish Government Economy Secretary, Fiona Hyslop, noted the decrease in Scotland's GDP as a **'devastating and unprecedented impact that the necessary lockdown restrictions have had on the economy'**. Dr Liz Cameron, CEO of the Scottish Chamber of Commerce said that the results **'makes Scotland's and UK's economies amongst the worst performing in Europe'**.

Despite this, local businesses appear to be generally upbeat about the future. In a recent survey conducted by Thomson Cooper, **70%** of respondents answered **'yes'** to the question **'Do you feel optimistic about the future?'**.

In our survey we asked the question **How has the profitability of your business been affected during the Covid pandemic from mid-March until June?**

Of those questioned, approximately one third of respondents advised that they had suffered no change in profitability to their business during the COVID pandemic or had seen profits improve; approximately one third had experienced a decline in profitability of up to 50%; and one third had experienced a decline in profits of more than 50% or were making a loss. 2½% of those responding had permanently ceased and are no longer traded.





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## Have you made use of the Furlough scheme?

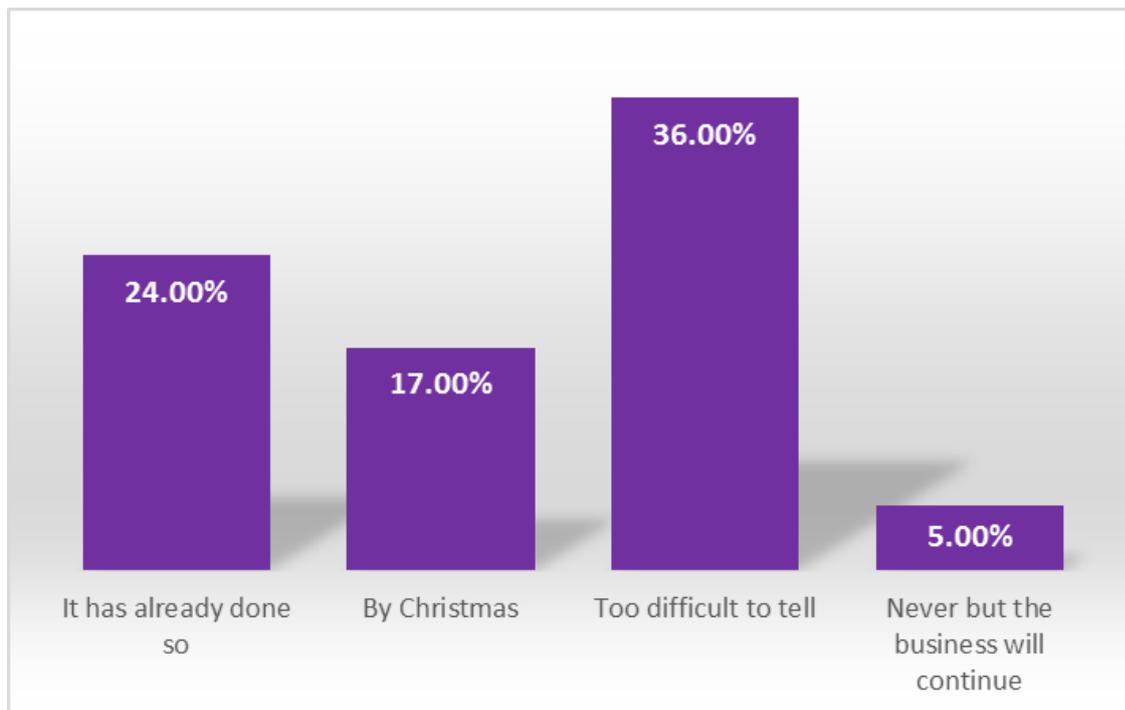
Although 58% of respondents had not used the furlough scheme, of those who had used the scheme, 28% had furloughed all or more than 50% of their staff.

It is almost impossible not to notice the number of redundancy announcements being made in the news, often on a daily basis. Data from the Insolvency Service showed that employers were planning at least **139,000** redundancies in June. Other companies have since announced big job cuts, but these will not appear in official unemployment statistics for a few months at least, with examples being 7,000 redundancies over three months at Marks & Spencer, 2,500 at Debenhams, 1,100 at Pizza Express, 200 at the Scottish National Trust and 100 pilots at Jet2. It is noted that most of these redundancies are concentrated on the retail, hospitality and leisure sectors.

## Do you expect to, or have you made staff redundant?

More locally, **60%** of businesses in the survey **did not expect to make staff redundant** with almost 3% employing more people now than they did before March. Interestingly, only 7% had made, or intend to make, more than 10% of their staff redundant.

## How quickly do you think profitability in your business will return to pre-pandemic levels?





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It was recently announced that UK businesses had secured £53bn in credit through COVID lending and many of the respondents to our survey had specifically noted their thanks to the Government for all levels of support.

For those of us who are older and have been in business for several decades, it is generally noted that most recessions and business challenges can produce positive outcomes.

In our survey we asked the question 'Has anything positive happened in your business during this period that will help you going forward?'

Over a third of respondents replied positively with the following themes emerging -

- new work / more sales and enquiries
- demonstrates the importance of keeping up to date and accurate records
- digitalising paperwork and improving efficiency
- allows time for staff training
- allows time to redecorate the business premises and improve facilities
- video conferencing means less travel
- improved teamwork
- allows time to review business plans and business / life goals
- lower costs
- identified new ways of working
- people perhaps value local businesses more than they did
- better work / life balance
- discovered that we don't need a city centre office
- more time to engage with customers and re-establish old connections
- provides opportunity to restructure the business

As we emerge from the recession and pandemic, some businesses will thrive and some will fall by the wayside. Our insolvency department is not yet busy with new cases, but we expect this position to change. Currently the Government are allowing deferment of a quarter's VAT and the self-employed July tax instalment. There are Government backed loans and furlough grant for wages. As the furlough initiative unravels and ends then it is likely that a number of businesses will cease trading before Christmas.

After that, the self-employed tax is due to be paid in January 2021, together with the next instalment of tax and any VAT deferred must be paid by 31 March 2021. The bounce-back loan repayments will commence one year after the loan was granted. Most cash flow forecasts that we have prepared for clients show short term cash is not an issue, but the pinch point is in the January to April 2021 period. Many businesses are likely to fold during that period.

Businesses must therefore remain vigilant and keep on top of debtor cash collection and be wary of extending credit or granting credit to other businesses that you do not know well. Many businesses we talk to are preserving cash and are fearful of a second spike or local lockdown and the effect that will have on their business and cash flow. It cannot be emphasised enough that 'cash is king!' Businesses should prepare projections using various scenarios to see whether they have sufficient resources to weather the storm until this time



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next year when hopefully business will return to some sort of normality. Our survey respondents are fairly sure that it will.

Stay safe and well.