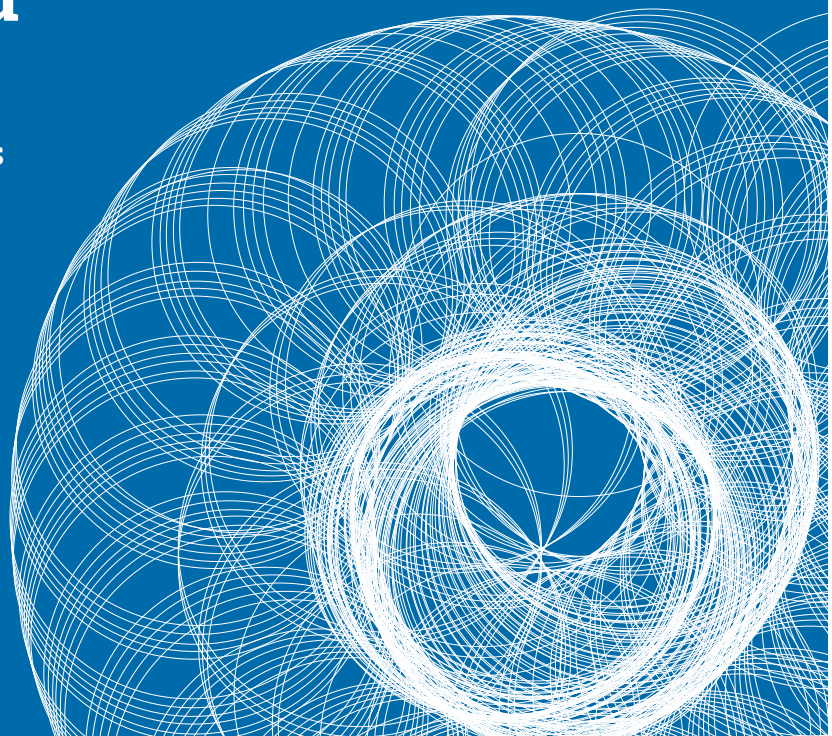


Survey of businesses to establish the economy-wide and industry level impact of COVID-19 in Scotland

A report for the
Scottish Government's
Advisory Group on
Economic Recovery



Project leaders: Emma MacFarlane and Samuel MacKinnon
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About Scotianomics

In the 21st century data is everywhere but it is the analysis that transforms data into valuable, actionable knowledge that is key to success.

Organisations, both in Scotland's private and public sectors, lack access to useful, reliable data and value-added analysis of the kind that most advanced countries take for granted. This creates a hidden but real disadvantage for Scottish business, limits public policy and disrupts the pursuit of shared prosperity.

Scotianomics aims to spark a knowledge revolution and inform the decision-makers on Scotland's economy. We provide cutting-edge intelligence and strategic planning resources so that stakeholders can gain a wide view of the threats and opportunities in the world through our geopolitical, economic and policy analysis, unique historical datasets, risk and opportunity forecasts, Geographic Information System mapping solutions and strategic planning services.

Gordon MacIntyre-Kemp

Director

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Executive summary

This report draws upon the analysis of a survey created by Scotianomics to highlight some of the key impacts and concerns among businesses in Scotland during the COVID-19 lockdown.

The survey focused on topics such as furloughing staff, business continuation grants, government-backed loans and revenues.

Respondents were located online, through LinkedIn groups, Direct email, adverts and through the business network Business for Scotland Ltd.

We conclude that the government strategy should now focus more heavily on the self-employed workforce. Those from sectors such as agriculture, forestry and fishing and tourism have expressed concern for their businesses and highlighted the lack of financial support they have received.

We also recognise the importance in allocating grant funding without delay, laying out a roadmap of future financial support for businesses and offering long-term financial aid to businesses within sectors that may face restrictions for the longest period of time.

This report aims to assist government officials in the decision-making process surrounding future financial support for employers and employees across Scotland and identifies key sectors that require additional support throughout, and after, this period of lockdown.

In addition to reporting on the short-term concerns of the business owners expressed in the survey responses, we have also contemplated the overall picture painted by this survey and observed the underlying business environment within which the recovery must operate. Thus, in the report's conclusions we offer six strategic observations and related policy suggestions to enable an effective recovery.

The survey investigates the following issues:

- Adverse effects on business
- Suspension of trading
- Business survival and government support
- Impacts on staff
- Impacts on cashflow between businesses
- Business confidence in post-lockdown trading

Issues businesses would like to raise with the Scottish Government or HMRC

- In the conclusions the authors suggest policy responses to address:
- The equality of access to support
- The impact on specific sectors
- Business uncertainty and confidence
- The lack of capital available for business restarts
- Understanding customer behaviours
- The business need for Personal Protection Equipment (PPE)

We feel sure that if the Scottish Government were to implement the innovative and necessary policy suggestions outlined in the conclusions of this report then Scottish businesses will be placed at a significant market advantage to those in other nations when it comes to restarting the economy.

Introduction

As cases of COVID-19 continue to rise and the infection rate remains at a concerning level across Scotland, restrictive lockdown measures will continue to be upheld by the Scottish Government. During this time, it is important to recognise the significant effects this halt to the Scottish economy is having upon businesses and their employees throughout the country. While companies across all sectors are facing new challenges, this report will highlight the industries that face particular strains and financial difficulties as a result of the COVID-19 lockdown.

Identifying the specific concerns of companies within each sector will aid government officials in the decision-making processes regarding financial support for Scottish businesses and allocating grants/loans.

We have created this report by surveying more than 400 Scottish business owners across various sectors. We have analysed the results of this survey to outline common themes and the fundamental issues surrounding the government's approach towards financial support and business survival during this period of lockdown and beyond.

One of the recurring concerns of our respondents focused on greater support for the self-employed, with sectors such as agriculture, forestry and fishing and tourism facing particular neglect. Another key issue was the delay in distributing government grants, with an overwhelming number of companies still waiting to receive this financial lifeline at the time of the data collection.

In total, 420 responses from owners of Scottish companies were gathered by the survey. The data was collected between Monday, April 27 and Sunday, May 10th 2020.

Adverse effects on business

Figure 1. Adverse effects on business at the economy-wide level (%)

Has your business been adversely affected by the COVID-19 lockdown?

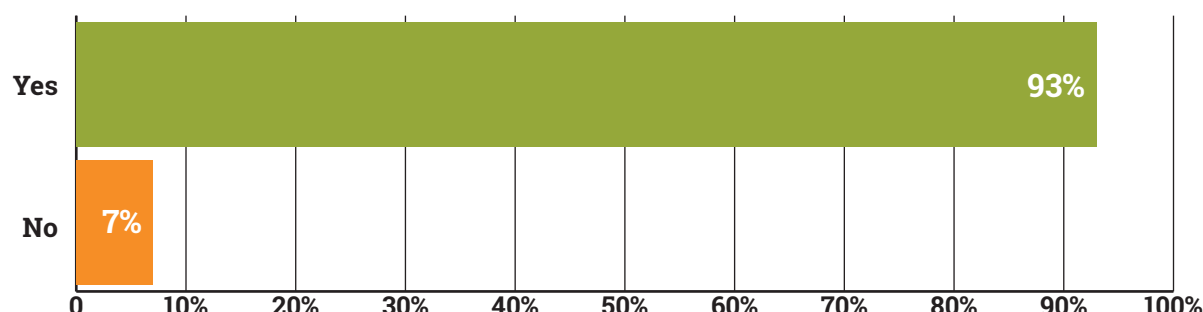
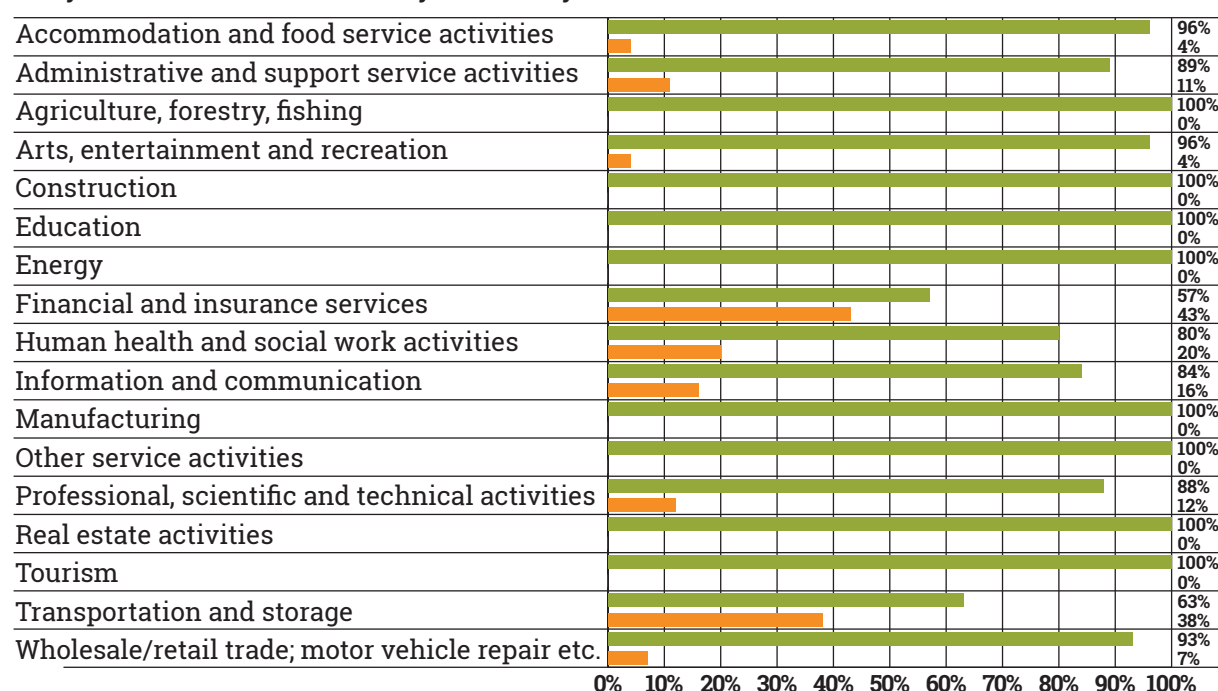


Figure 2. Adverse effects on business at the industry level (%)

Has your business been adversely affected by the COVID-19 lockdown? ■ Yes ■ No



There is clear concern among business owners in all sectors due to the effects of the COVID-19 lockdown. In sectors such as construction, education and tourism, in which the lockdown has brought a complete halt to all activities and services, it is unsurprising to see all companies express in the report of those sectors that the lockdown has had adverse effects on their business.

Companies within the financial and insurance activities sector have experienced less change and drastic effects from the COVID-19 lockdown. In some cases, these companies may experience an increased workload due to the lockdown being a time of

financial hardship for a large section of society and many companies making business interruption claims.

Several companies providing online services, such as online training and website design, reported small increases in trade. Some online retailers reported significant increases in trade in some sectors, but these cases represented a small subsection of our sample.

Suspension of trading

Figure 3. Suspension of trading at the economy-wide level (%)

Has your business had to temporarily suspend trading as a result of the lock down?

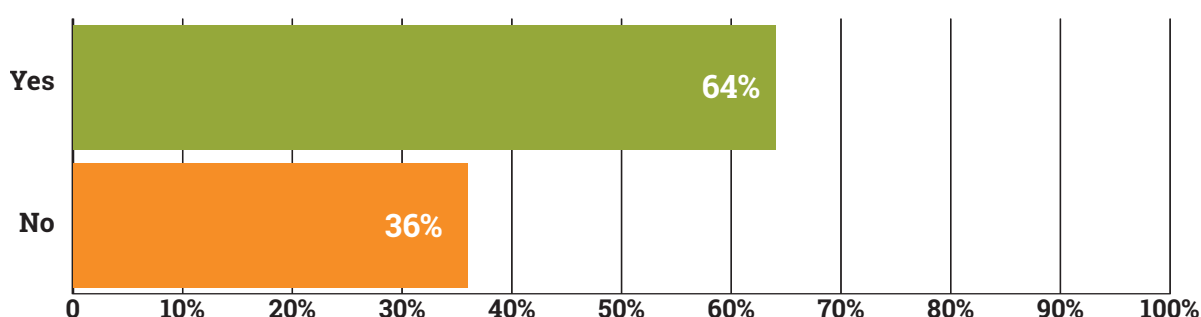
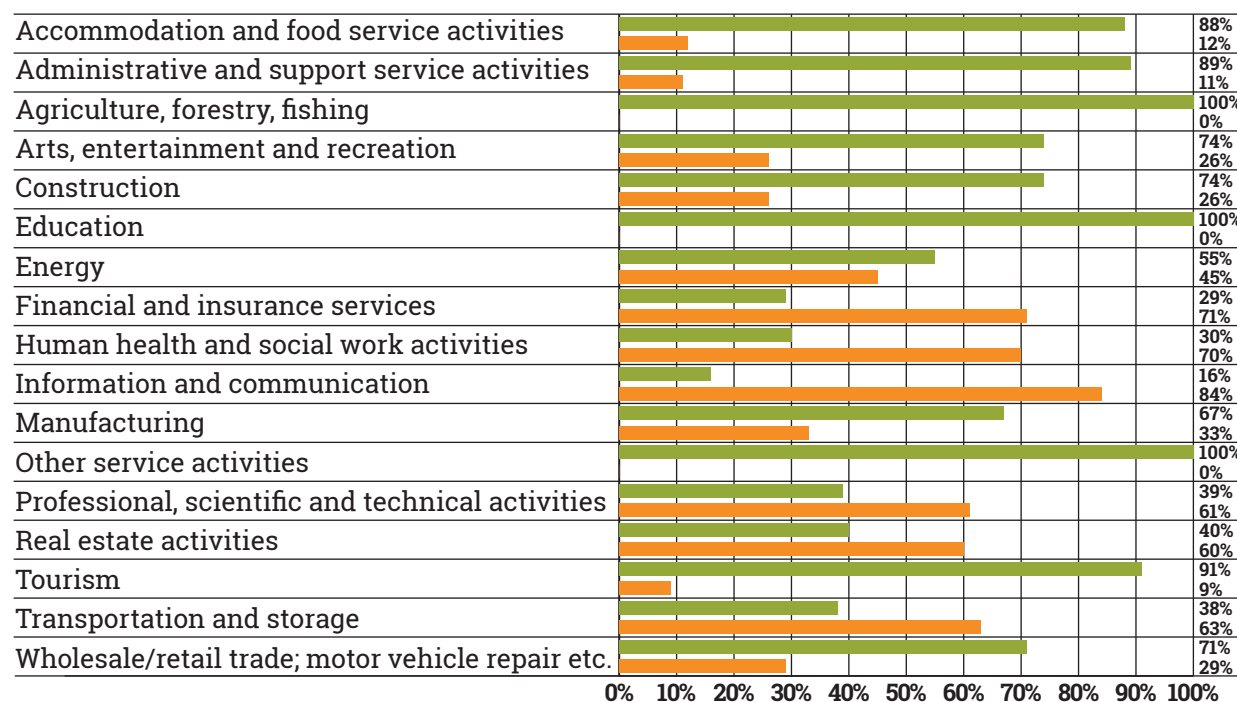


Figure 4. Suspension of trading at the industry level (%)

Has your business had to temporarily suspend trading as a result of the lockdown? ■ Yes ■ No



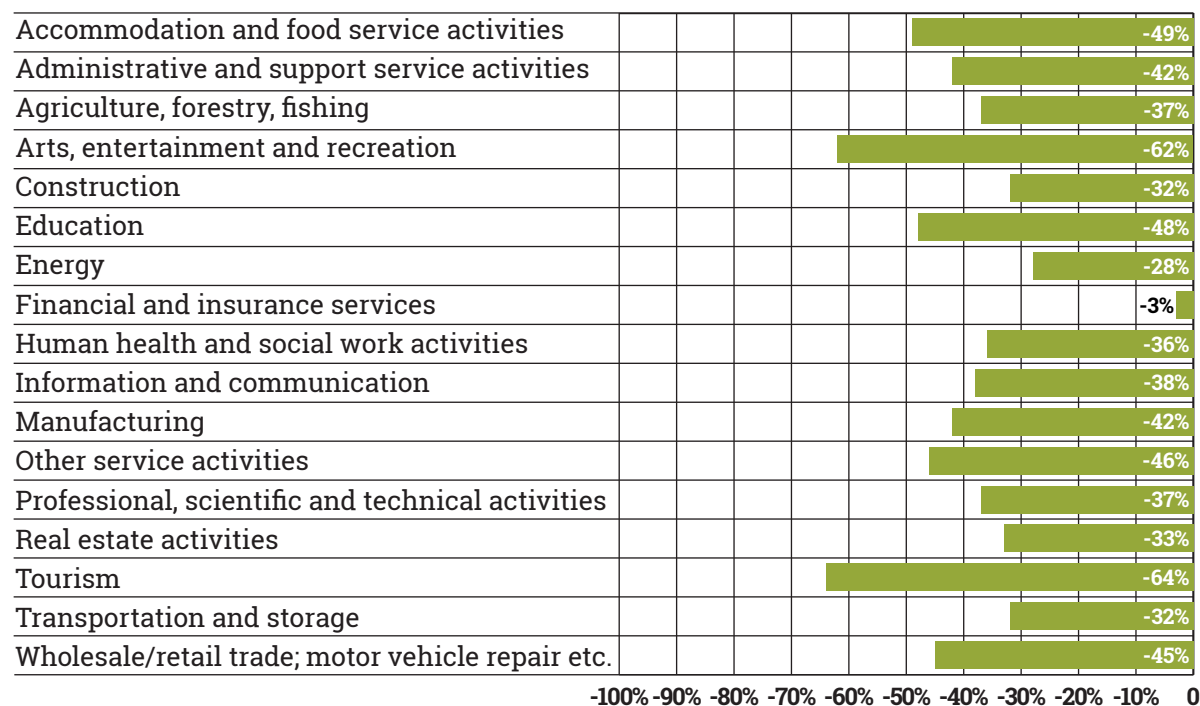
One of the many damaging impacts that the COVID-19 lockdown is having on businesses in Scotland is the temporary suspension of trading. This may be due to the

suspension of production of goods or the loss of suppliers/trading partners wither in the UK or abroad. Within the agriculture, forestry and fishing sector, for example, the industry relies heavily on international trade and the loss of this market will be hugely damaging for many towns and villages across Scotland. This suspension in trading will have adverse effects on the wider Scottish economy, over and above that experienced by the companies themselves. During this global pandemic, the human health and social work activities sector is particularly crucial and, as displayed in these results, most companies and workers within this sector will continue to work and trading will be largely maintained.

Business survival and government support

Figure 5. Lockdown impacts on revenues at the industry level (%)

We don't know when the lockdown will end, but please estimate what percentage change in revenue you would expect in the 12 months following March 1st 2020



This question draws attention to the specific sectors that are currently facing and will continue to face the most severe and harmful consequences of this global pandemic. Businesses within the tourism sector predict the largest change in revenues, with an average of -64% across the companies within this industry. The financial and insurance activities sector foresees the smallest impact on their revenues, predicting only a 3% loss across the various firms within this sector. However, it is important to recognise that across all sectors there is an expected drop in revenues, highlighting the widespread financial hardship of this period.

Figure 6. Business survival and government support at the economy-wide level (%)

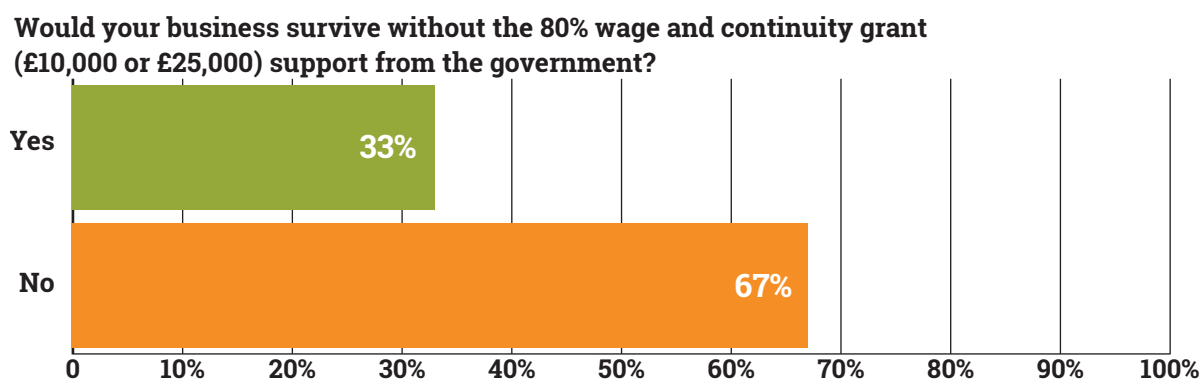
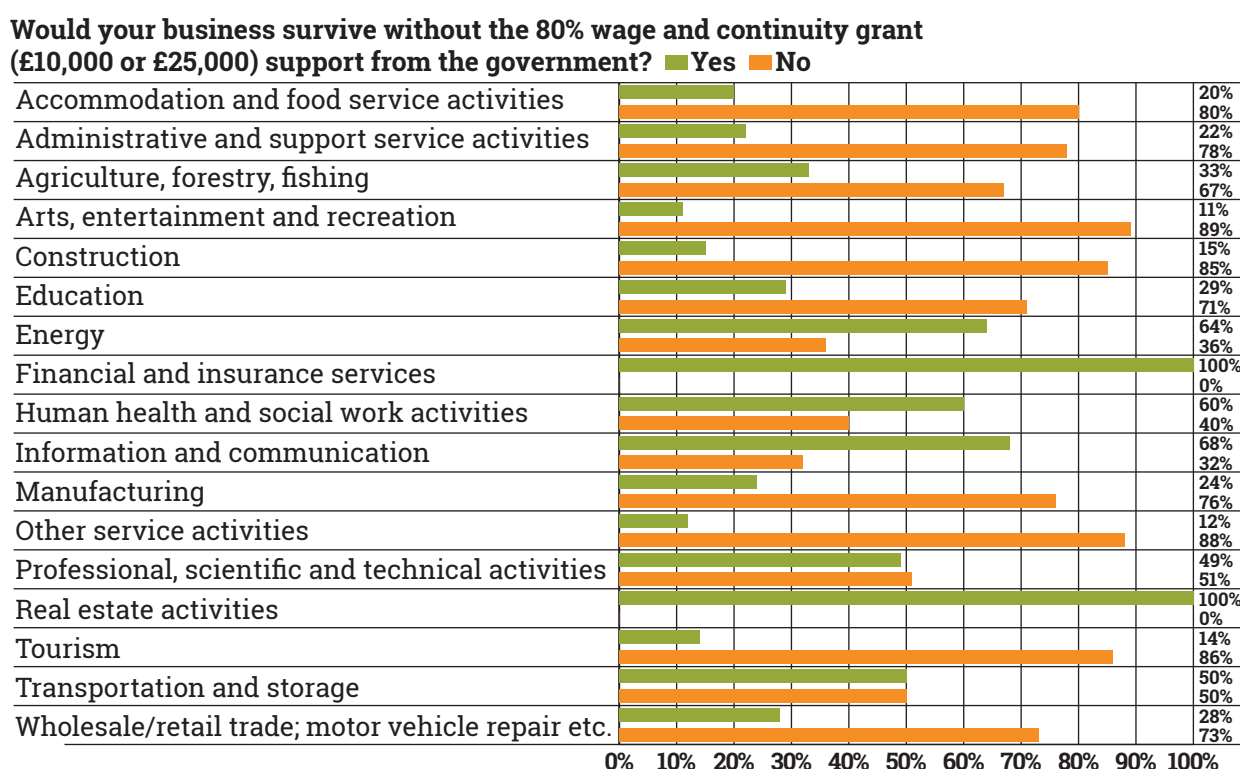


Figure 7. Business survival and government support at industry level (%)



This is a time of clear financial hardship for many companies and this is evidenced with a majority of companies within more than 70% of these sectors expressing the importance of this financial support to their survival. Businesses within the arts, entertainment and recreation sector and the tourism sector suggest extreme vulnerability during this time. Many businesses within these sectors are expected to face restrictions for a long time, with travelling abroad and large-scale gatherings likely to be some of the last measures to be eased. Many companies across these sectors have suggested that they would not survive without the 80% wage and continuity grant (£10,000 or £25,000) support from the government. These figures highlight the significance of this financial aid and it is clear that without such schemes, long-term damage would be prominent within these sectors.

However, businesses within the financial and insurance activities sector and the real estate services sector display great certainty of survival during a time when many others are highly uncertain of the survival of their business. Again, many financial and insurance companies currently report they are experiencing increased workloads. Meanwhile, real estate sector companies are likely to be affected in the short-term but have more confidence in the longer term. However, the size and speed of the market rebound will be dependent on the return of functionality and investor confidence. It is also likely that opportunistic purchasers will take advantage of the period of inevitably reduced liquidity.

Figure 8. Applications for business continuation grants at the economy-wide level (%)

Have you applied for a business continuation grant (£10,000 or £25,000) from your local council?

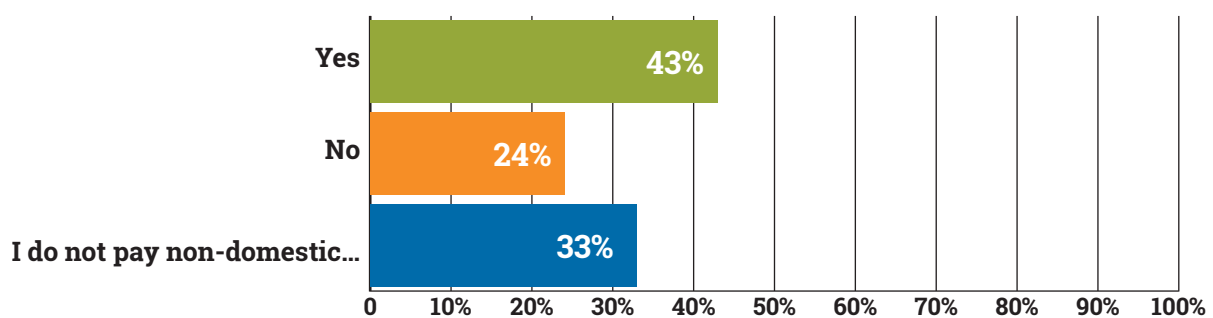
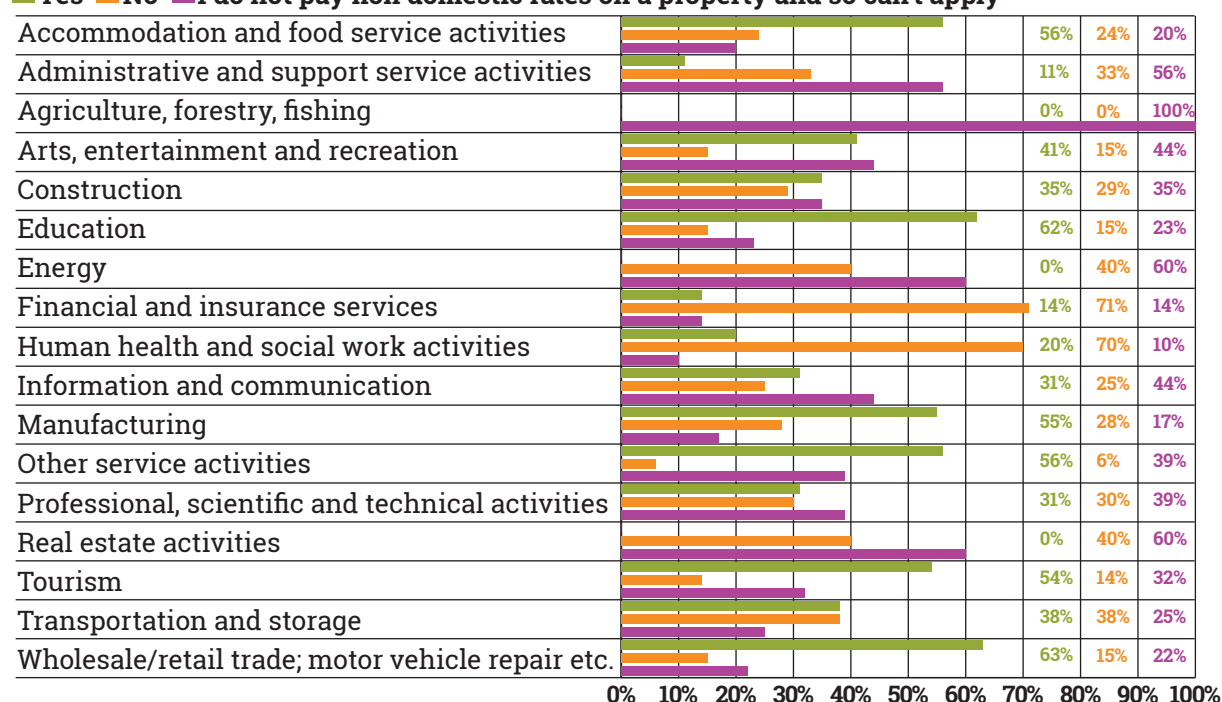


Figure 9. Applications for business continuation grants at the industry level (%)

Have you applied for a business continuation grant (£10,000 or £25,000) from your local council?

■ Yes ■ No ■ I do not pay non domestic rates on a property and so can't apply



A majority of non-domestic rate payers have applied for a business continuation grant of either up to £10,000 for small businesses or up to £25,000 for retail, hospitality and leisure businesses. However, more than 33% of respondents, who do not pay non-domestic rates on property, are not eligible to apply for this grant and therefore cannot receive this additional funding. Those businesses that do not pay non-domestic rates range from sole traders without premises to some quite large community benefit companies that have premises but do not pay rates through discretionary schemes run by councils. There were also other companies with distributed workforces who work from home and travel to clients – such as engineers, consultants, sales agents and surveyors – that missed out on grant support despite employing large teams and running businesses of significant size and running costs.

Certain sectors are disadvantaged with regards to receiving government financial support during the COVID-19 lockdown, as highlighted in these results. The business continuation grant of either up to £10,000 for small businesses or up to £25,000 for retail, hospitality and leisure businesses, is only available non-domestic rates. Therefore, those who do not pay such rates on a property cannot claim this funding. 63% of businesses within the wholesale and retail trade; repair of motor vehicles and motorcycles sector stated that they applied for this grant. This is unsurprising, with most companies within this sector paying non-domestic rates. However, again, those within the agriculture, forestry and fishing sectors are disadvantaged. With this sector involving outdoor work, many companies within this industry will not pay non-domestic rates and, therefore, are not eligible for this grant.

Figure 10. Businesses reporting that they have received grants at the economy-wide level (%)

Have you received your grant?

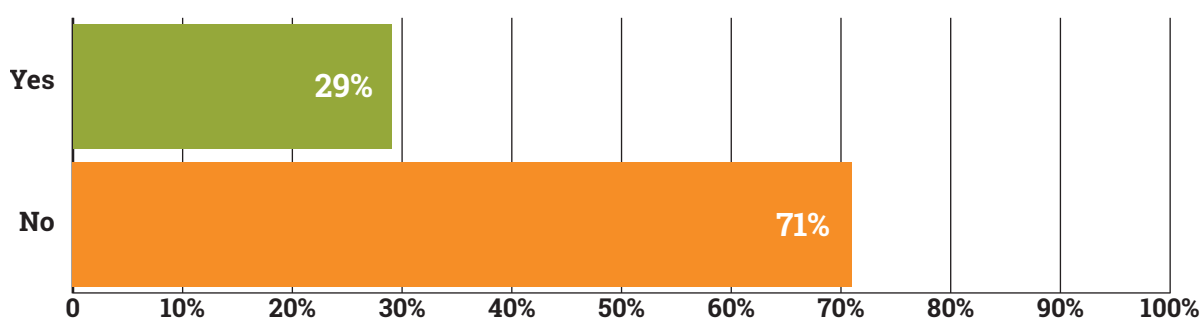
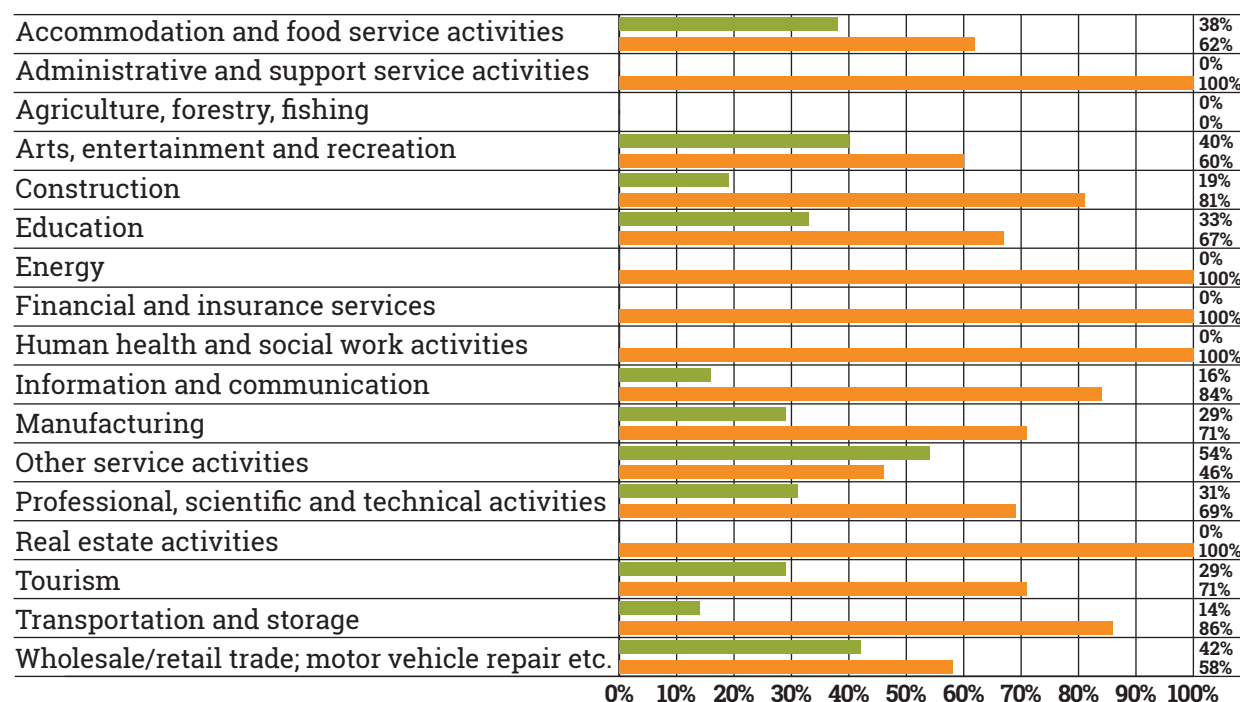


Figure 11. Businesses reporting that they have received grants at the industry level (%)

Have you received your grant? ■ Yes ■ No



These figures highlight a delay in the government allocating grant money to businesses across various sectors, with over 70% of respondents stating that they have not yet received their grant. The survey was carried out between Monday the 27th of April and Sunday, May 13th. The later respondents were far more likely to have received their grants but there were significant numbers in Glasgow, in particular, that had not received the grant. Glasgow is the largest city in Scotland and has by far the most eligible claimants, so some delay was understandable. We have checked with a small subsample of Glasgow businesses and all had received their grant by May 15th, the publication date of this report.

Of those businesses that had not received their grant they report that, on average, it has been 15 working days since claims were submitted.

This is a crucial time for many businesses as they face extreme financial difficulties and a delay in this type of support could determine a company's future. In order to resolve this issue, greater and more direct communication between the Scottish Government and local councils is required and more efficient processes must be put in place as we learn from this experience.

These grants must be issued efficiently to protect companies across a variety of sectors. For example, within the construction sector, in which revenues are usually very high, the suspension of work will have a dramatic impact on hundreds of companies and this grant may act as a financial lifeline. Therefore, in order to protect thousands of companies across Scotland any of these funds still outstanding must be issued without delay.

Figure 12. Business survival confidence at the economy-wide level even with Government support (%)

Are you worried that your business will not survive the COVID-19 crises even with the current Government support?

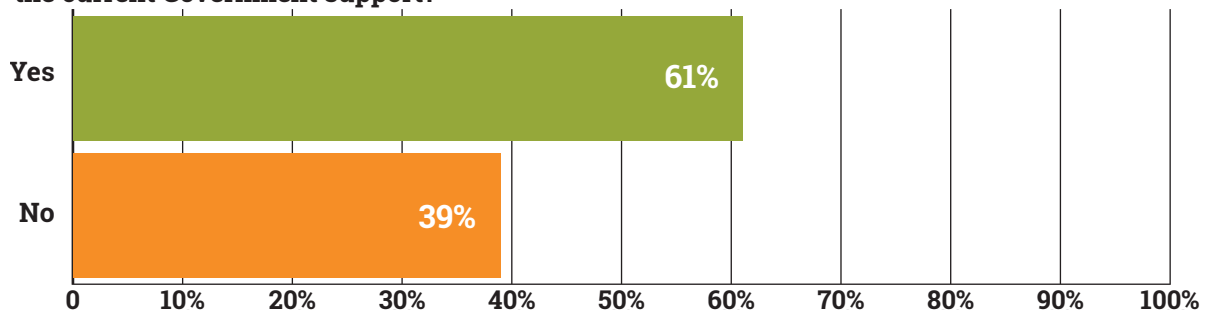
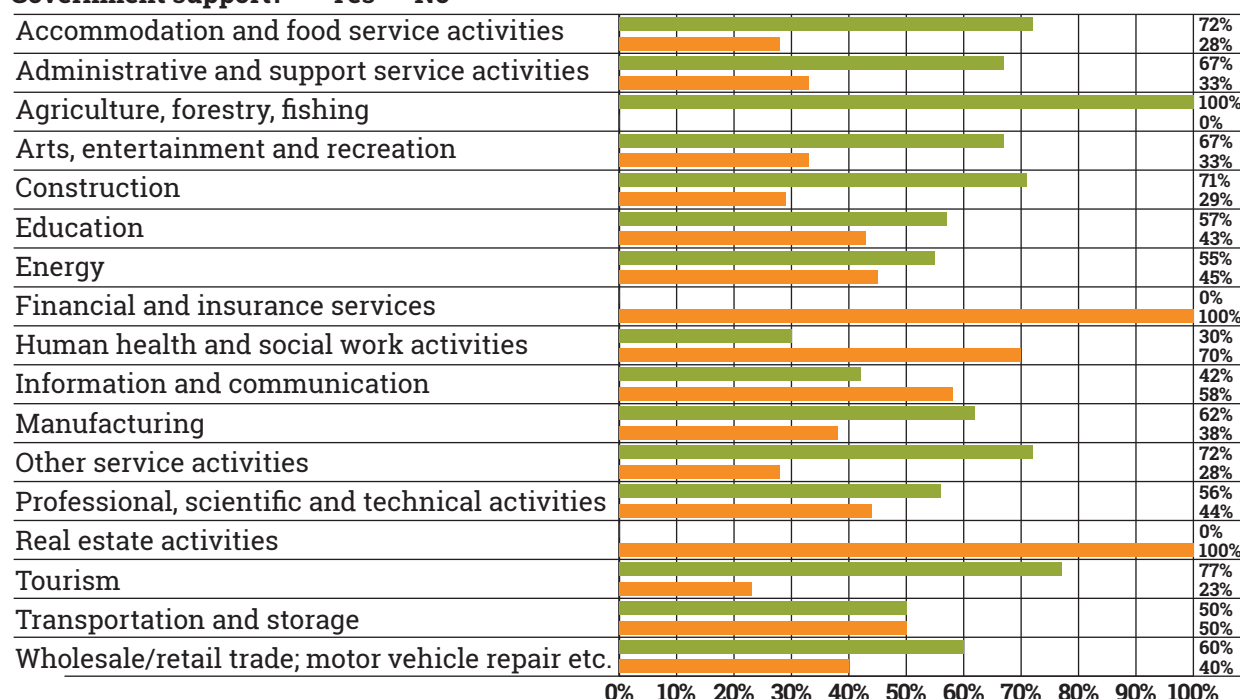


Figure 13. Business survival confidence at the industry level even with Government support (%)

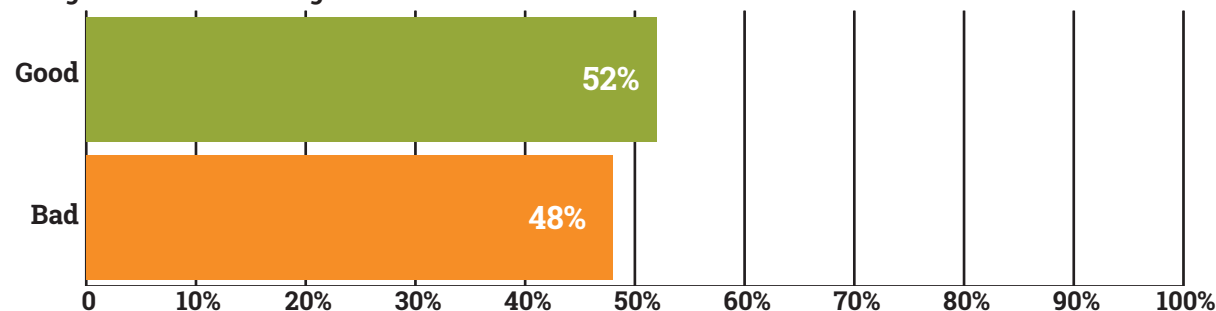
Are you worried that your business will not survive the COVID-19 crises even with the current Government support? ■ Yes ■ No



These results highlight the importance of the current government funding, with most sectors showing a dependency on this financial aid. However, it also highlights that within some sectors, such as the agriculture, forestry and fishing industries, in which many workers are self-employed, financial support from the government is lacking. The tourism sector also holds a large number of self-employed workers and, again, 77% of business owners in this sector suggested that they may not survive even with government support.

Figure 14. Business views on Government backed loans from banks at the economy-wide level (%)

Do you think Government backed business continuity loan from banks is a good or bad idea in general?



Opinion among respondents on government backed business continuity loans from banks was nearly evenly split. A slight majority of employers believe they are a good

idea in general. However, 48.27% of participants suggest that this type of support scheme is a bad idea, which could explain why very few have applied for this type of loan. It may be beneficial for the government to provide greater reassurance and more information on this type of loan and its benefits.

Figure 15. Applications for a Government backed business continuity loan at the economy-wide level (%)

Has your business applied for a Government backed business continuity loan from your bank?

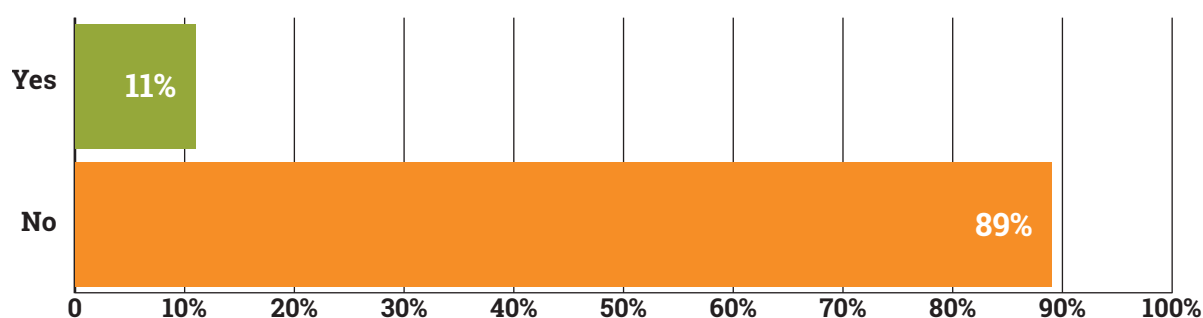
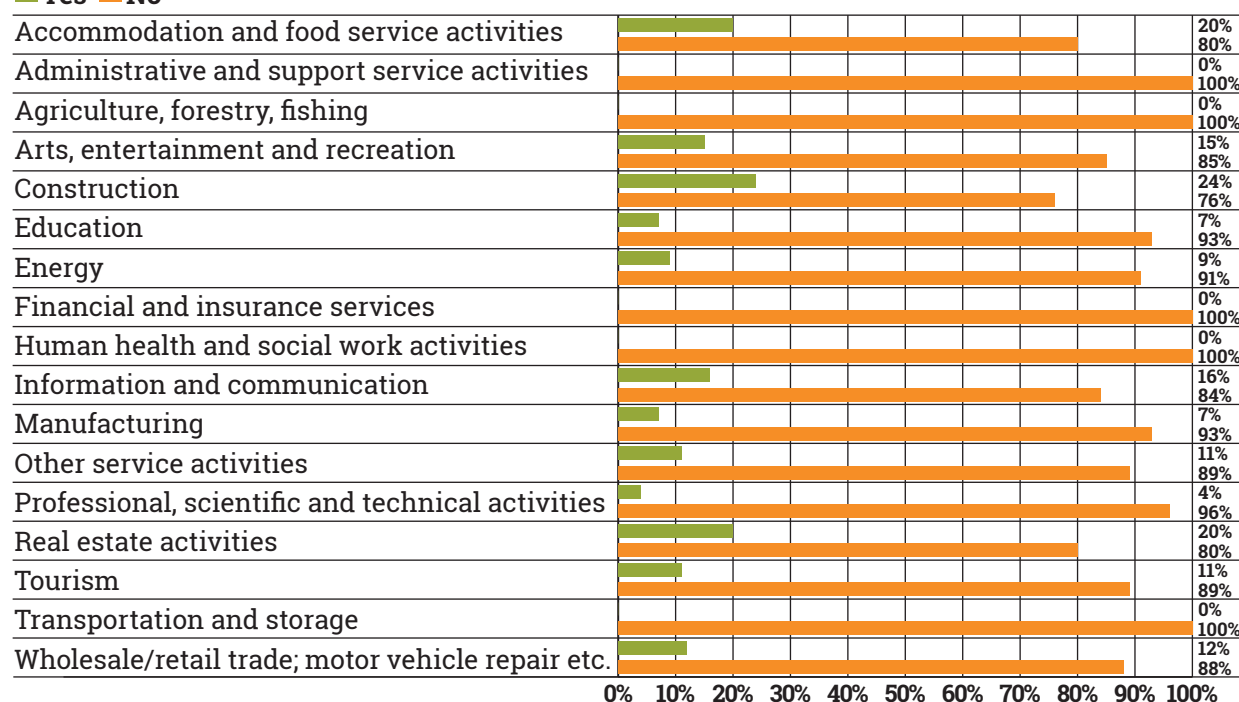


Figure 16. Applications for a Government backed business continuity loan at the industry level (%)

Has your business applied for a Government backed business continuity loan from your bank?

■ Yes ■ No

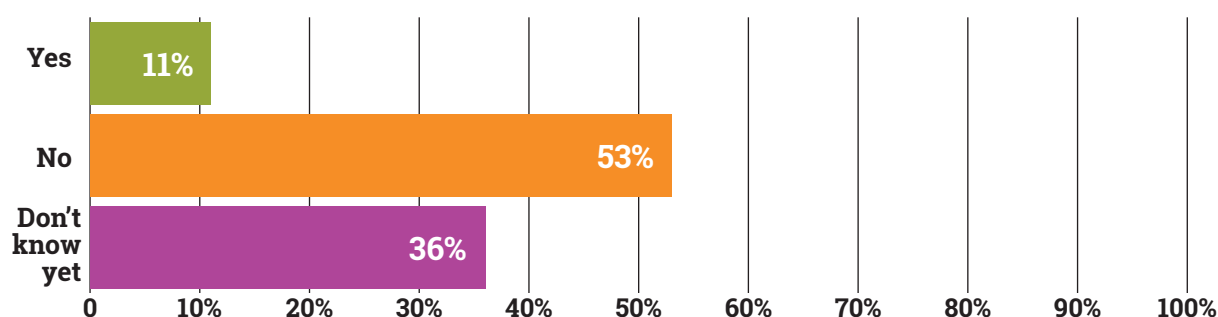


The Coronavirus Business Interruption Loan Scheme (CBILS) provides financial support to SMEs and larger companies affected by COVID-19. The scheme helps companies access loans and other kinds of finance of up to £5m. A large majority of respondents to this survey have stated that they have not applied for a continuity loan from their bank. Only 11.06% of respondents stated that they have applied for a government backed business continuity loan.

There may be several reasons for this, such as credit scores, a company's desire to avoid relying on a loan, or simply that the business does not require a loan after receiving government grant support. Businesses within sectors that may face trading restrictions for a longer period of time than others, such as accommodation and food service activities and tourism, may have to rely on a government-backed loan, particularly if they have not yet received any grant money. However, those are among the very businesses that predict they may not survive and, therefore, will not be able to truthfully claim that they expect to be able to pay back the loan. It is clear there is an overwhelming theme that most businesses across all sectors have not applied for a government-backed loan from their bank.

Figure 17. Business intention to apply for Government backed business continuity loan from bank at the economy-wide level (%)

Will your business apply for a Government backed business continuity loan from your bank?



Again, a majority (53.38%) of respondents explained that they do not intend to apply for a government backed business continuity loan from their bank. This implies that most companies plan not to rely on a bank loan during this period and there appears to be a level of uncertainty around this support scheme. However, 35.51% of participants stated that they did not know yet whether they would apply for this type of loan.

This suggests that this may be a future option for some businesses as the COVID-19 lockdown prolongs and worsens the financial consequences for many businesses in Scotland. However, that would also suggest that they see such a loan as a last resort.

Figure 18. Businesses unable to apply for Government support at the economy-wide level (%)

Does your business miss out on any form of Government support related to COVID-19 for any reason? (such as being self-employed, being paid by dividend not PAYE or are community benefit company, etc.)

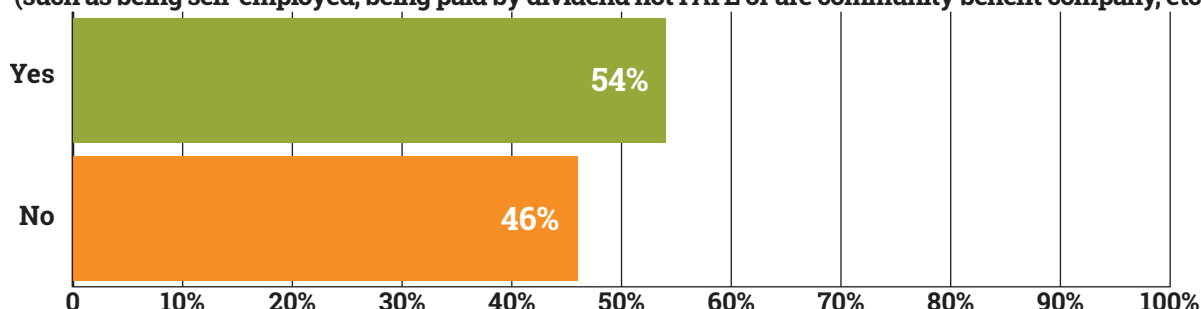
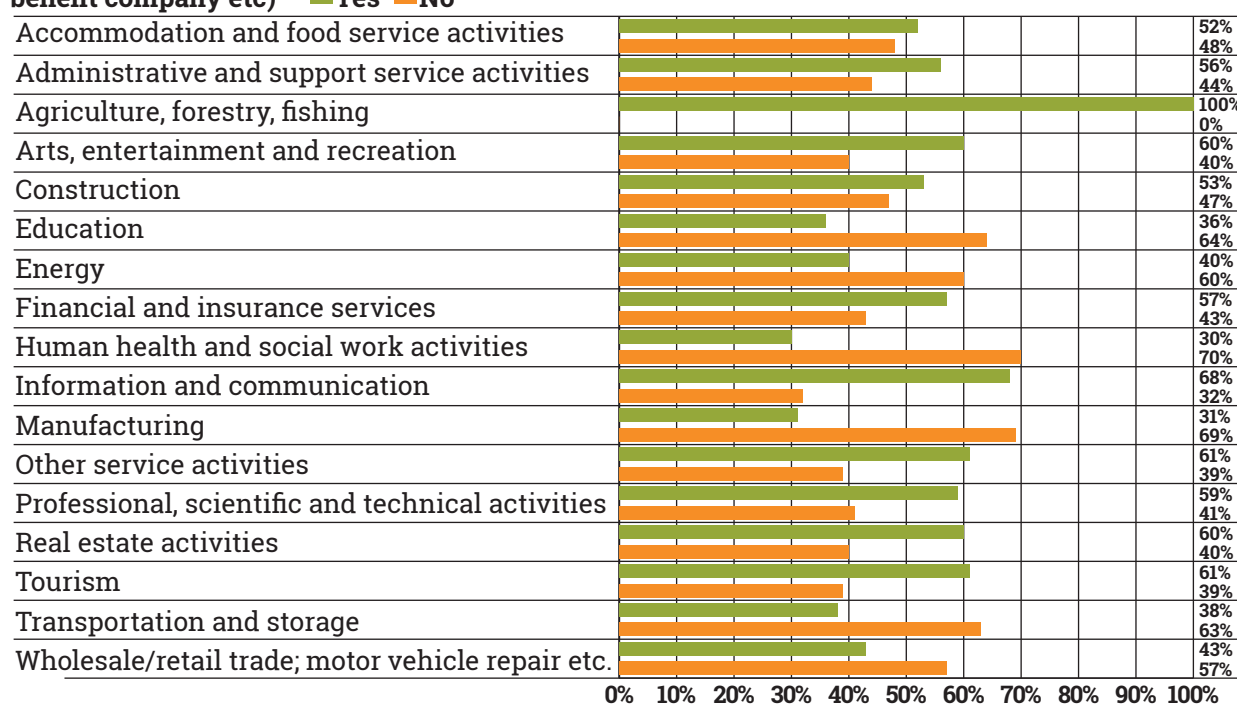


Figure 19. Businesses unable to apply for Government support at the industry level (%)

Does your business miss out on any form of Government support related to COVID-19 for any reason? (such as being self employed, being paid by dividend and not PAYE or are community benefit company etc) ■ Yes ■ No



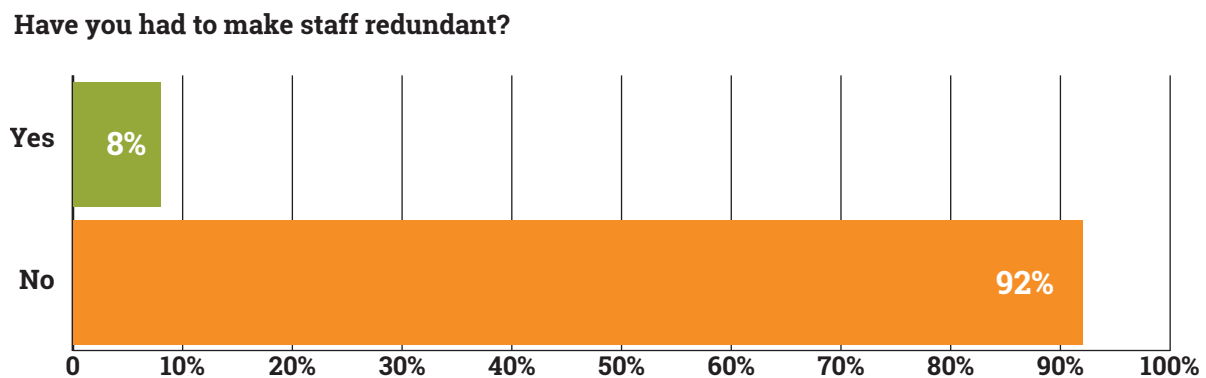
These results, again, display a vulnerability among those who are self-employed during this COVID-19 lockdown. The agriculture, forestry and fishing sector is one of the particularly vulnerable industries during this time and, from these results, appears to be receiving little help from the government. Many company directors take dividends rather than pay themselves through HMRC, and that perfectly legal approach to directors' remuneration means they are not able to claim 80% of their normal wages back if they themselves were furloughed. It was also the case that new-start companies where directors had invested and were not yet drawing salaries were unable to claim.

This suggests that financial support for those affected by COVID-19 must be more widespread to ensure those who are self-employed, for example, receive sufficient support from the government as well.

However, 46.27% of respondents stated that they do not feel that they are missing out on support, showing that a section of society is receiving sufficient financial aid from the government.

Impacts on staff

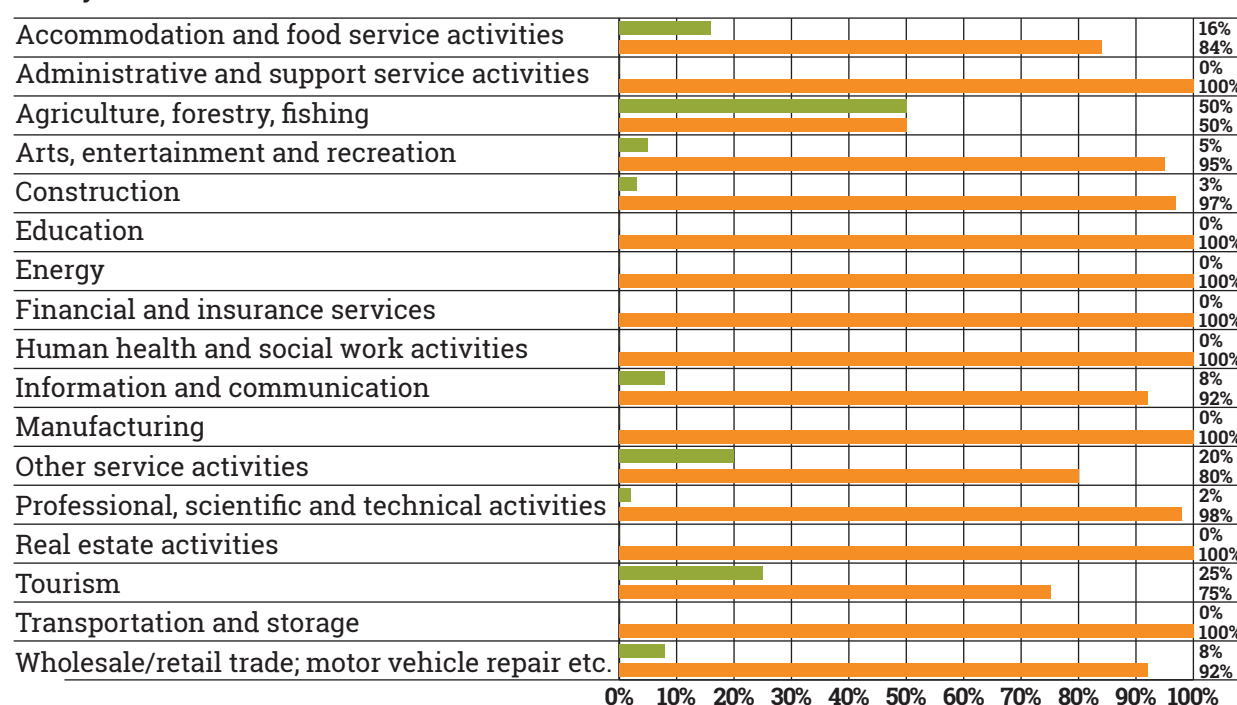
Figure 20. Businesses recording staff redundancy at the economy-wide level (%)



There is clear evidence that most employers have not had to make staff redundant. With more than 90% of business owners stating that they have not had to take this type of action during the COVID-19 lockdown, it is evident that this is a last resort for most employers. This result also suggests that the government funding is sufficient for most companies and is helping to prevent business owners from having to make staff redundant.

Figure 21. Businesses recording staff redundancy at the industry level (%)

Have you had to make staff redundant? ■ Yes ■ No



Again, it appears to be employers in sectors that are heavily dominated by self-employed contractors, such as agriculture, forestry, fishing and tourism, that have had to take such action to protect their businesses during this difficult time.

This data, which highlights that the majority of business owners have not had to make staff redundant, also suggests that government funding is sufficient for most companies and is helping to prevent business owners from having to lay off members of staff that will be crucial to restarting their businesses when lockdown measures are eased.

Figure 22. Businesses furloughing staff at the economy-wide level (%)

Have you had to furlough staff?

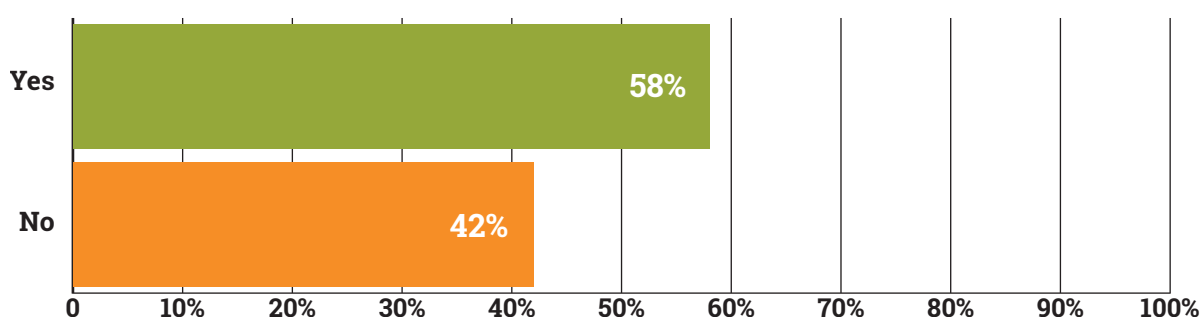
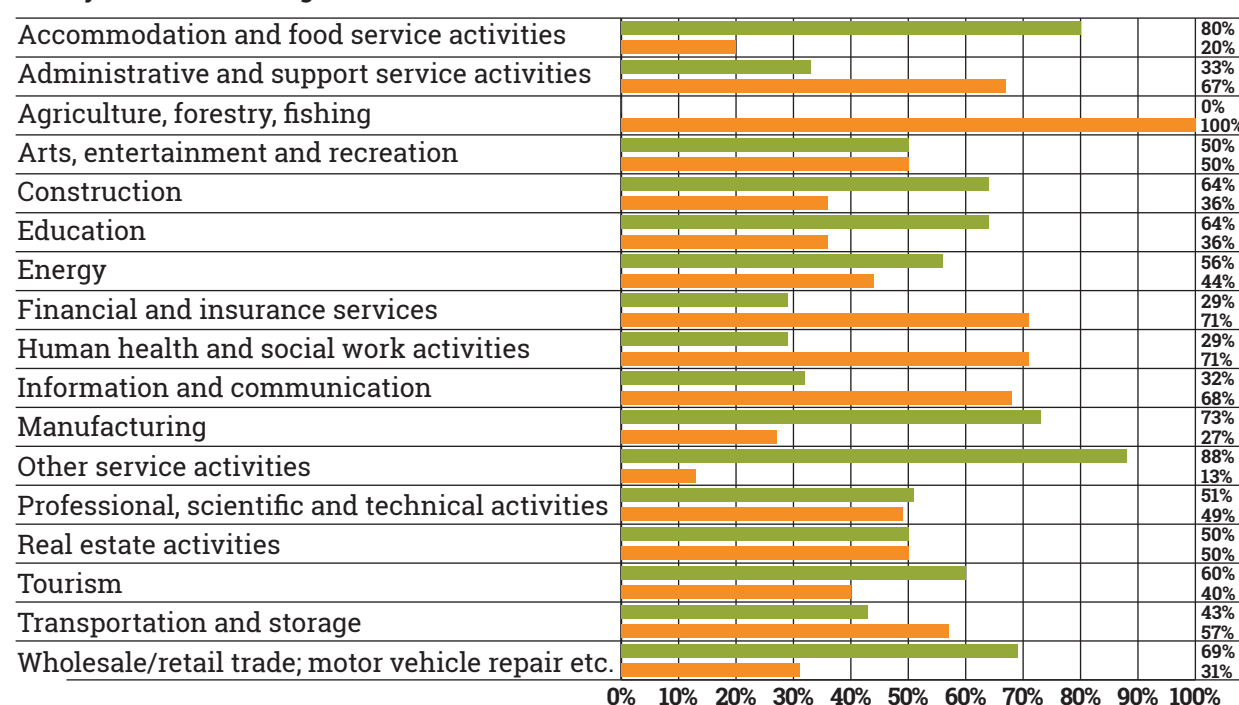


Figure 23. Businesses furloughing staff at the industry level (%)

Have you had to furlough staff? ■ Yes ■ No

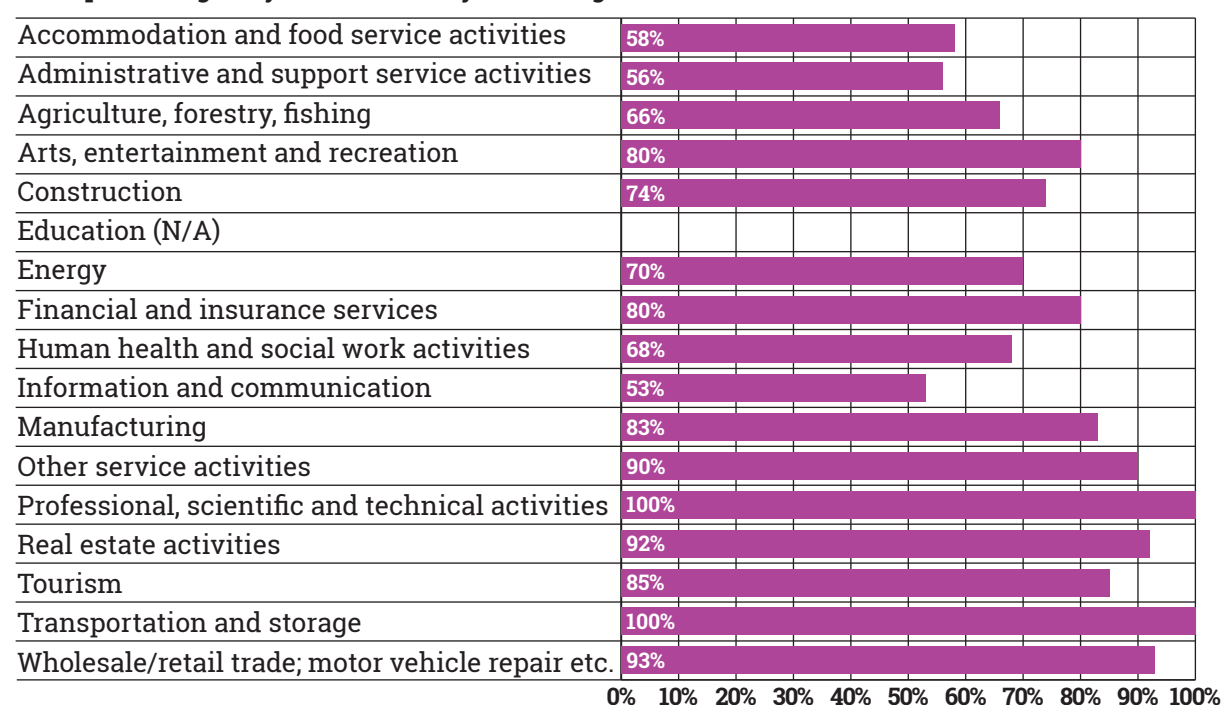


A majority of businesses have had to furlough staff during the COVID-19 lockdown. This involves the temporary leave of employees due to the current economic pressures and financial hardship that many businesses are facing. When an employer furloughs a member of staff they are then able to make a claim from the HMRC for 80% of the wages of the furloughed staff. More than 57% of the respondents to this question stated that they have had to furlough their staff.

These results highlight that the sectors in which most companies have had to furlough their staff are those that cannot implement a policy of working from home. For example, the manufacturing, construction and accommodation and food service sectors cannot provide their usual services or business by working from home. Therefore, many companies within these sectors have had to adopt the furlough system.

Figure 24. Extent of furloughing at the industry level (%)

What percentage of your staff have you furloughed?



The professional, scientific and technical services industry is large and covers a range of companies such as legal and accounting businesses, computer software design and architects. Such companies may be unable to provide their normal services from home, resulting in a decline in company revenues and ultimately, having to furlough all members of staff.

The information and communication sector and the administrative and support service activities sector are more likely to be able to introduce work from home policies. Many businesses within these sectors will offer online services and these can be provided while staff work from home. Therefore, companies within these sectors are more likely to have key members of staff working from home and only furlough some of their employees.

Figure 25. Intention to claim 80% wages for furloughed staff at the economy-wide level (%)

Will you be making a claim to the HMRC for 80% of the wages of furloughed staff?

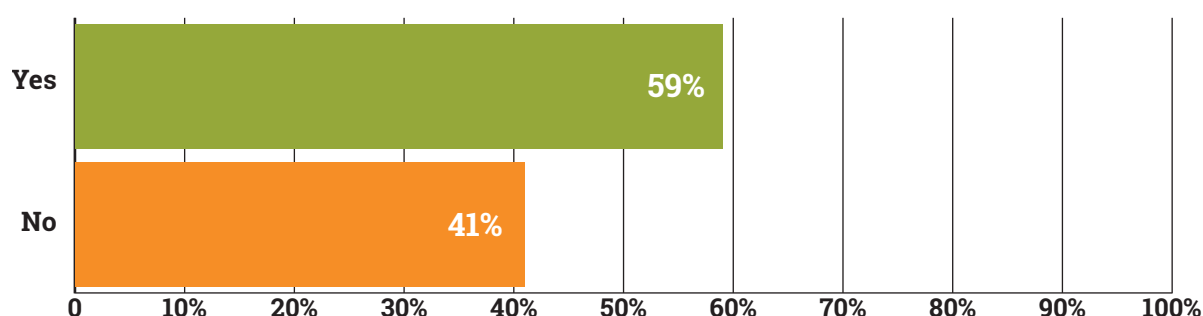
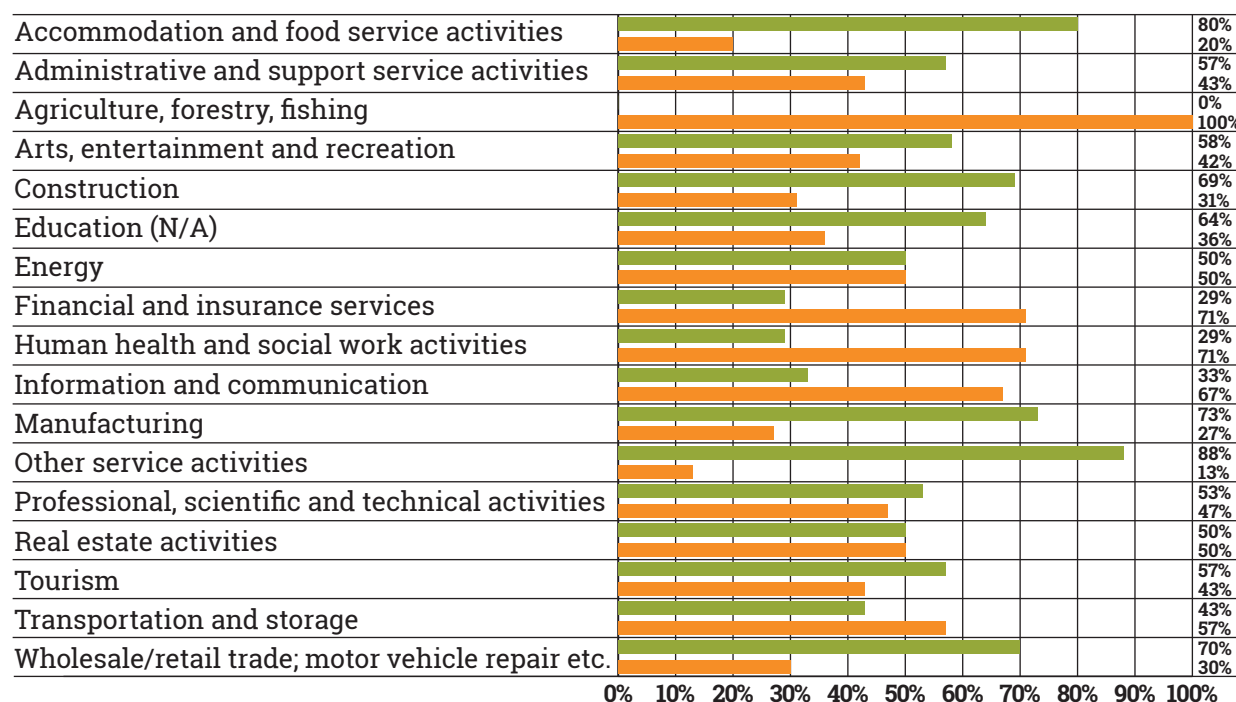


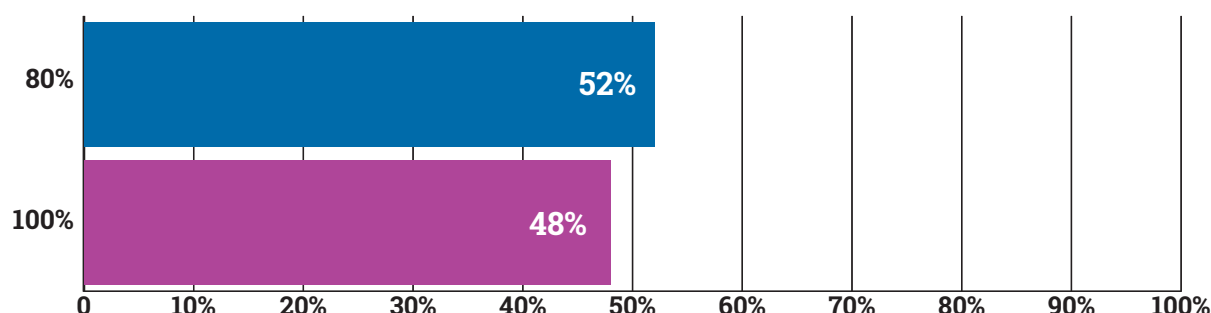
Figure 26. Intention to claim 80% wages for furloughed staff at the industry level (%)

Will you be making a claim from the HMRC for 80% of the wages of furloughed staff? ■ Yes ■ No



Those who have furloughed staff are likely to have taken this action due to the financial strain they are under. Therefore, again, a majority of business owners across the sectors have stated that they intend to claim from the HMRC 80% of the wages of furloughed staff. This option helps companies to avoid financial collapse and prevents staff from being made redundant. These results, again, highlight that businesses that cannot continue to offer their services while working from home are probably the most likely to have to furlough their staff.

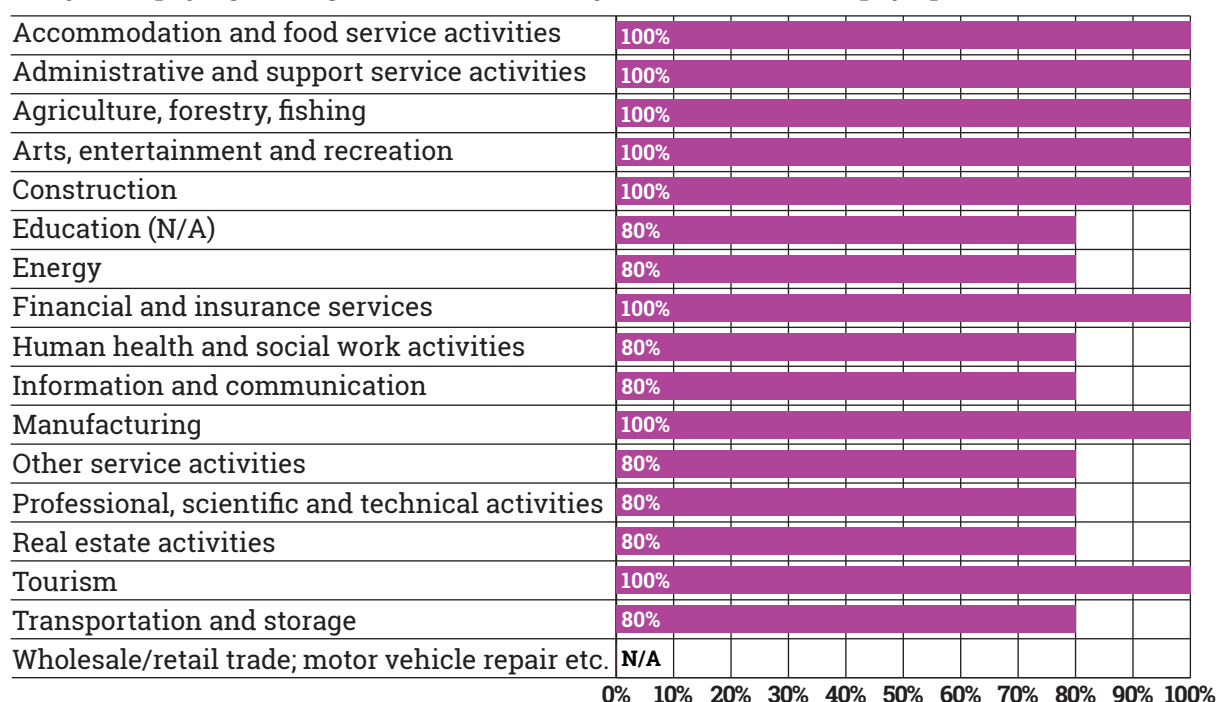
Figure 27. Intention to pay staff 80% or 100% of wages at the economy-wide level (%)



48.09% of respondents to this question stated that they will provide 100% of their furloughed staff's wages. Some employers are still able to make up the extra 20% and continue to pay their furloughed staff 100% of their wages. However, during times of such financial hardship it is unlikely that this will be sustainable in the longer term.

Figure 28. Intention to pay staff 80% or 100% of wages at the industry level (%)

Will you be paying furloughed staff 80% or are you able to make the pay up to 100%?



For businesses within the professional, scientific and technical services sector and the transportation and storage sector, all of which stated that 100% of their staff would be furloughed, paying only 80% of their employees' wages is expected. These companies will have very little, if any, source of income with all their employees being furloughed. Therefore, paying the extra 20% of wages would be extremely difficult and may cause further financial strain. Figure 28 refers to the average result for each sector although there will be individual variances.

Impacts on cashflow between businesses

Figure 29. Clients paying for previously invoiced work at the economy-wide level (%)

Are your clients paying you for previously invoiced work?

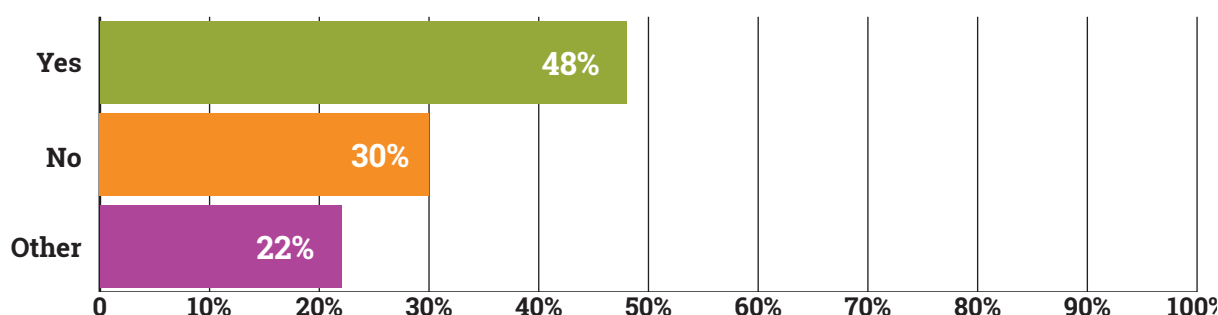
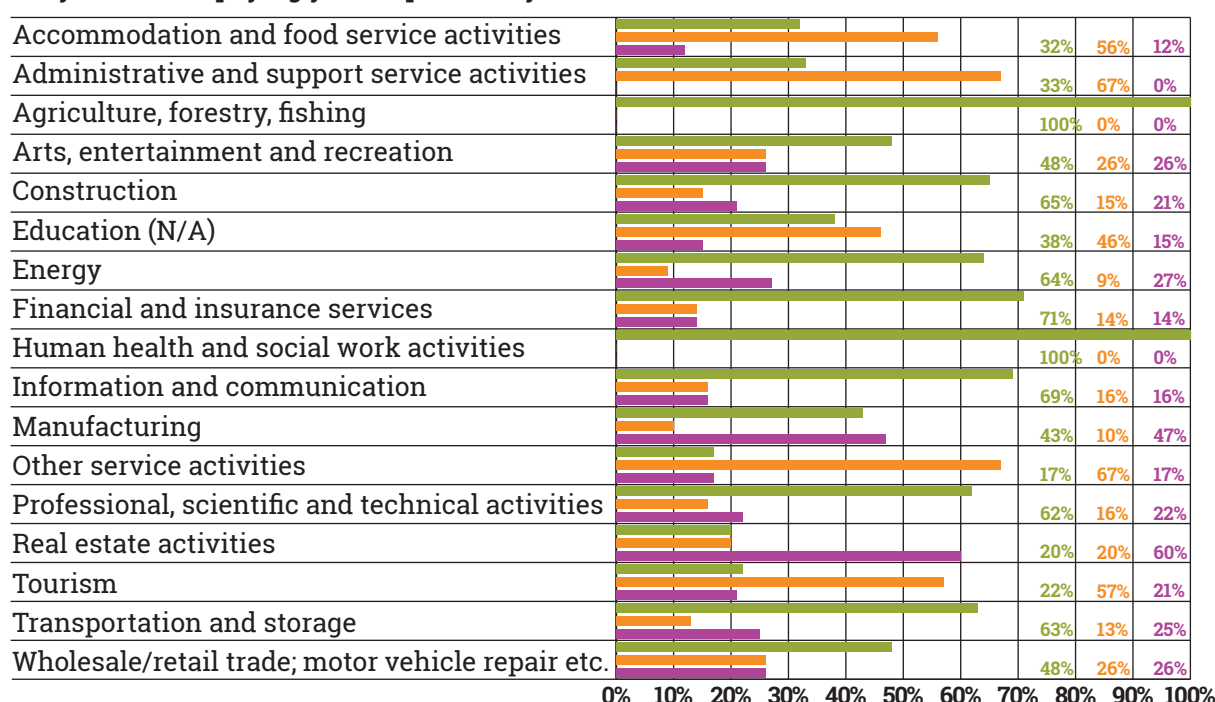


Figure 30. Clients paying for previously invoiced work at the industry level (%)

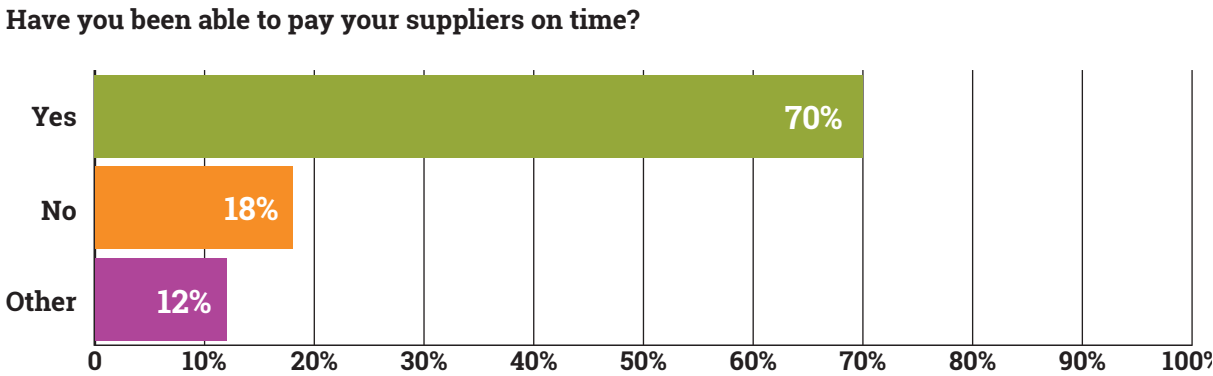
Are your clients paying you for previously invoiced work? ■ Yes ■ No ■ Other



These figures suggest that across the majority of sectors most businesses have not had an issue with clients paying for previously invoiced work. However, in the accommodation and food service activities sector 56% of businesses explained that clients had not paid for previously invoiced work. Meanwhile, those who selected “other” are likely to have a percentage of clients who have not paid for such work. This issue is particularly relevant for hotels or lodge accommodation, where clients have cancelled previous bookings and requested refunds. Of those businesses who have not been paid fully by clients, they report that, on average, 63% of invoices have been paid.

Many businesses within the tourism sector have also been badly affected by clients not paying for previously invoiced work. This may be for similar reasons, including individuals cancelling holidays and tours, and requesting refunds and deposits.

Figure 31. Respondents' ability to pay suppliers at the economy-wide level (%)



It is clear that a majority of business owners have been able to pay their suppliers on time, with only 18.47% failing to do so. However, some of the respondents who stated “other” also faced difficulties with paying some of their suppliers. There was a common issue among various business owners of having to delay payments or prioritising payments to certain suppliers over others. For a smaller proportion this issue did not apply to their type of business, whilst others mentioned that they were paying all invoices “except VAT and PAYE”. This is having a very personal impact on several business owners, with some even using their own personal savings to be able to continue to pay suppliers.

It is worth considering that as the lockdown continues the percentage of businesses able to pay outstanding invoices will reduce and capital reserves will dwindle. Restarting many businesses will require payment of full wages, payment of invoices previously delayed and the purchase of new stock. Further research is required but it may be that the capital required to restart business is just not going to be available given the fragility of the invoice chain. To be clear, with less than 50% of businesses being paid on time the tipping point whereby capital flows are unsustainable has already been reached.

Business confidence in post-lockdown trading

Figure 32. Businesses anticipating difficulties after lockdown at the economy-wide level (%)

Following the lockdown do you anticipate difficulties, financial and otherwise, in restarting your business?

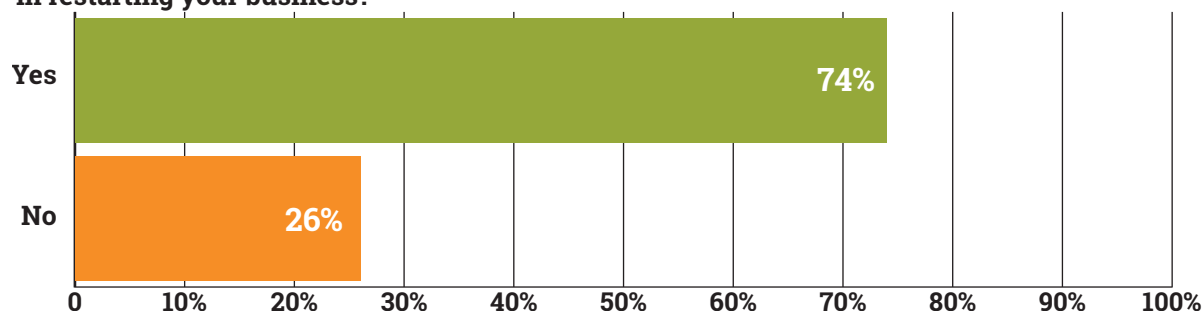
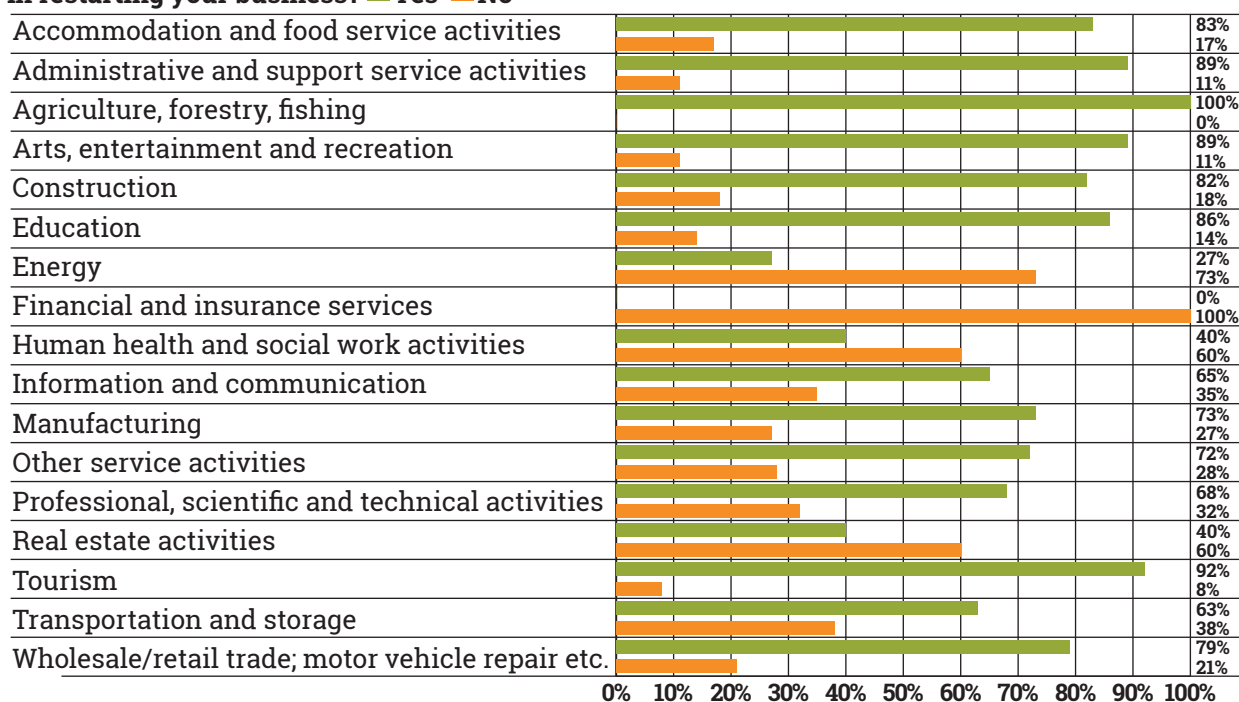


Figure 33. Businesses anticipating difficulties after lockdown at the industry level (%)

Following the lockdown do you anticipate difficulties, financial and otherwise, in restarting your business? ■ Yes ■ No



This is a time of great uncertainty and worry for most businesses, across a variety of sectors. However, this apprehension is likely to continue even after the lockdown has been eased and this is made clear within this data. The large majority (74.46%) of employers who have stated they anticipate difficulties in restarting their business are likely to be considering the financial, health and social concerns of returning to work as “normal”. The education sector, for example, faces great obstacles in returning to normality with social distancing and learning being extremely difficult to implement safely. The tourism sector will also face future struggles, with many foreign tourists being unable or lacking confidence in travelling abroad.

Issues businesses would like to raise with the Scottish Government or HMRC

We asked businesses about the issues they would like us to raise with the Scottish Government or HMRC regarding COVID-19 business support, for example claims processes and eligibility, in order for the government to provide more information on how and when the lockdown may end, as well as how it will be managed. Below we list the key themes that arose in the answers to this question, as well as specific issues that were raised by respondents. These do not necessarily represent the views or suggestions of Scotianomics; we are simply reporting the concerns of businesses across Scotland.

Rules for returning to work/businesses re-opening

- “Back to work plans and the rules surrounding businesses being able to open.”
- “Publishing restart and management plans for each business sector early to allow some consultation or input. E.g. hotels could plan to open as self-catering/limited services without needing to go through all of the regulatory hoops first. Businesses should be allowed to temporarily suspend planning conditions/licensing etc. to trade differently for the medium term until we are out the other side. What no business needs is an application process for consent to change trading models etc. - these processes were maddeningly slow and laborious pre-COVID and we can't sustain more admin! The main enemy here is time more than money - decisions need to be made quickly and correctly (and with very quick consultation) but businesses need to be able to instantly change their models to survive over a defined term (say 12 months only) and we can clear up the regulatory mess afterwards.”
- “Economic recovery planning needs to happen now, business needs to start moving to adaptation to help businesses trade out of this - the longer the business interruption the more difficult recovery will be - I understand the focus on grants, but there needs to be urgent resourcing of locally based business support - not centralised generic info from Biz Gateway.”

Support for limited companies

- “Support for limited company directors with low salary and higher dividends.”
- “Directors and limited companies need help. My new start company had just borrowed 400k before this. And have no idea how I’m going to make repayments after the payment holiday is done nor when I’m going to be able to start trading.”
- “Small limited companies with directors who take a small salary to keep cash flow due to uncertainty then take a dividend at end of year if the company has made money don’t get the same furlough grant as employees.”

Processing of claims too slow

- “It’s important that claims be processed quickly. We are happy to comment that furlough payment from the government was made in 6 days of application. Unfortunately, same can’t be said about the grant administered by Fife Council as we have been waiting for 3 weeks and having not received even confirmation of receipt have had to re-apply for a second time.”
- “Grant claims far too slow and more obstacles being put in the way for Scottish companies compared to the rest of the UK – it’s very unfair.”
- “Expediency of claims.”
- “Claims process was flawed - requirements were not clearly stated from the start which held up the process, was almost four weeks from application till payment. Our industry is likely to be last to be able to return due to having to work in close proximity with clients and I’m fearful that the grant won’t be adequate to keep my premises on - I think the hair and beauty industry may need extra assistance.”

Self-employed help

- “No help being made available for the self-employed for two months since the lockdown is unacceptable, when PAYE staff are on 80% income.”
- “A very poorly thought out and poorly administered with very many small SMEs, sole traders and self-employed falling completely through the net. In addition, I hear that some poor souls on furlough have found they have received a fraction of the ‘up to £2500’ as HMRC have taken off the NI and Tax at the pre furlough levels. They will then have to apply for a tax rebate later.”
- “The plight of creative workers. I suspect UBI is the only practical solution as it would enable creatives to concentrate on producing work rather than having to do part-time work outside of the Arts just to eat and pay the rent.”
- “Self-employed need more info and help”

- “More information as to when self-employed will be paid the 80% payments and does it cover every week of the lockdown.”
- “Having recently restructured and moving from company director to self-employed means I do not qualify for govt support. Our business is less than three years old and we’re currently using our own funds to ensure its long-term survival. We don’t know what the long-term impact of this will be. So, whilst our immediate circumstances are secured by our own funding, the long term is potentially of greater concern i.e. impact on employment and therefore ability for our customers to finance our services.”

Insurance companies not paying out

- “Insurance companies refusing to pay out, even where notifiable diseases is included in policy. Many businesses are affected and have been told it may take years to resolve. Solid guidance needed for how to stay safe when reopening post-lockdown.”

How long will the financial support continue?

- “How long will we continue to receive support - the £10K grant will only keep us going for a limited time.”
- “Support review every 3 months once lockdown is lifted with additional grant funding available if recovery is slower than anticipated for at least 12 months. This should also be reviewed prior to anniversary.”
- “When we reopen it will be for 1 or 2 days per week. It would result in removing staff from the employment furlough scheme. This would act as a huge commercial deterrent for opening in a planned and managed start-up. Losing this support is a real concern, so it’s more rewarding to stay closed. This means we can’t get our 200 + fleet of our supply chain boats back fishing on a part time basis. This is very frustrating for all concerned.”

Those who don’t pay non-domestic rates

- “Eligibility for the grant for businesses that don’t pay non-domestic rates.”
- “Other than already mentioned, newly incorporated businesses (i.e. in 2019/20) with no business premises, do not presently qualify for any help, unless running a payroll. My wife, previously self-employed, falls into this category and has received no help to date. We are hoping the new schemes announced by the Scottish Government will apply to her.”
- “It would be helpful if some provision were made for those who don’t have a business premises and pay themselves through their company by dividend.”

- “Quicker process and greater eligibility for businesses like mine who rent property but are not down as the rates payer.”
- “Grants for businesses who don’t pay rates. More attractive loans Corporation Tax and VAT deferred for longer.”

VAT reduction

- “Reduce vat for a short period to stimulate the economy into making purchases.”
- “Ask UK government to Reduce V.A.T for small businesses in Scotland.”
- “UK government reduce VAT.”
- “We are a charity and would like to be VAT free. I.e. not having to pay VAT on inbound goods and services.”

Key conclusions and observations

The main concerns expressed by business owners throughout this survey were very much focused on short-term financial survival. However, in addition to these short-term concerns, we have also contemplated the overall picture painted by this survey and observed the underlying business environment within which the recovery must operate. Thus, we can offer six strategic observations and related policy suggestions to enable an effective recovery.

Key conclusions

1. The equality of access to support

There are many groups within the business community that have not been well serviced by the government support already announced. We recognise that the Scottish Government is restricted in its ability to tailor support to Scottish businesses due to the nature of the funding provision from the Westminster Government. However, where the Scottish Government has made choices, there are some companies that have been better supported than others. For example, in the case of second properties receiving lower grants, sectors such as tourism, leisure and hospitality have been severely impacted. Unfortunately, these are the sectors that have been the most adversely affected overall.

The government's strategy should now focus on additional support for the self-employed. There are more than 300,000 self-employed individuals in Scotland, many of whom are receiving very little financial help. The neglect that has been shown towards this section of the economy by the UK Government's original approach has been evidenced throughout this report, with individuals within the agriculture, forestry and fishing sector highlighting the lack of financial support that they have received.

2. The impact on specific sectors

Many businesses within the tourism, arts, entertainment and recreation sectors will face restrictions for a longer period than others, due to the nature of their services. Therefore these sectors, which have faced an instant and dramatic loss in revenues, will require significantly more financial support to survive and restart their business than has already been announced.

While it will require a high level of administrative sophistication, it is clear that businesses in the most affected sectors will require higher levels of support, for longer than, for example, financial services companies and online retailers whose businesses have seen a smaller financial impact from the lockdown.

As many of the worst hit sectors are significant to rural economies, we will need to consider if the support required will need to be tailored with consideration to both by sector and geography. This will require more data and geographic analysis. However, as some of the worst hit industries may be major employers in certain locations (fishing and fish processing/exporting in Peterhead and Fraserburgh, for example) these economic clusters will also take longer to recover.

3. Business uncertainty and confidence

In a crisis, clear communication is vital and will lay the foundations to addressing business uncertainty. Many business owners will be hesitant to restart or to reinvest and many may close completely rather than face the problems of reopening, particularly if they are not confident that there will be a sustainable economic recovery in which to participate.

A key concern raised within this report was the delay in receiving the business continuation grant (£10,000 or £25,000) from local councils. This has now largely been resolved. However, a great number of employers experienced delays in receiving this grant which was a financial lifeline for many other companies. More targeted support will be required to restart the economy and begin the recovery. Clear communication as to what the plan will be, what support will be provided and how that will be effectively and swiftly administered will be key to retuning business confidence.

Many business owners worry that they may not be able to afford to reopen. Some are concerned that if they restart business there will not be enough customers to operate profitably. Many employers also feel that if they borrow money to finance the reopening of their business and there is a second wave of infection, leading to another lockdown, they will be in a position of significantly greater financial hardship and business risk. This means that many businesses will announce redundancies if the furlough scheme ends suddenly. This clearly indicates that the furlough scheme should be eased in a gradual manner and the timeline for doing so may require differentiation between sectors and, possibly, regions. It also indicates the problems of restarting the economy before a vaccine is available and suggests a gradual reopening over several months, not weeks.

4. The lack of capital available for business restarts

It is a poorly understood principle that the best source of capital for any business is money from customers. However, this survey demonstrates that the invoice chain has collapsed and the capital required to restart business is not available.

This situation has been exacerbated by the terms of the furlough grant scheme, which indicated or has been understood to mean that furloughed staff cannot chase invoices or make payments. Only half of our respondents have reported that their all their invoices have been paid. Of those businesses who have not been paid fully by clients, they report that, on average, 63% of invoices have been paid. Also, as 65% of businesses have suspended trading, very few new invoices are being issued.

90% of businesses have, so far, rejected the idea of applying the government supported loan. This is mainly due to the fear of the business not being able to repay it. There was a general feeling from the respondents that the loan guarantee from the UK Government is suitable for the banks, not for the companies.

Invoice factoring

The Scottish Government, through the National Investment Bank, can put in place the ability to factor the invoices that businesses have issued, including those that have not been paid, due to the collapse of the invoice chain.

How the factoring process works.

Business A is short of capital to reopen because businesses B and C have not paid the invoices issued by business A. Businesses B and C want to pay business A but cannot as businesses D, E and F have not paid them. This is a market failure in terms of normal business cashflow and justifies government intervention.

The Scottish Government can, on receipt of business A's invoices, loan the company 80% of the value of the outstanding invoices. That instant cashflow injection will allow Business A to restart trading.

To risk-proof the transaction, business A must supply documentary evidence that the invoices have been sent and that the payment has been delayed due to business B and C not being paid by their customers. The government can then offer to factor business B and C's outstanding invoices on the condition that they pay business A.

This will restart the invoice chain and the Scottish Government will be able to charge a 6% factoring fee. The payment from the creditors will be made to the SNIB and the bank will then forward the remaining 20% of the value of the invoice, less the 6% arrangement fee. The SNIB can also issue fees to the creditor on any invoices that are late. To avoid late fees the invoiced companies can factor their own invoices through the SNIB.

There will be some bad debt. However, holding onto 20% of the invoice book value and taking a 6% fee should, if the risk-proofing is set up correctly, make the process profitable and eventually result in the SNIB having more capital to invest in fast growth potential industries.

This will also allow for Scottish businesses to get back up to speed and grow more quickly than other nations whose governments do not address invoice chain cashflow issues.

There are further questions that should be considered regarding this policy process. For instance, can the Scottish Government utilise the unused and guaranteed UK Government loan scheme to underwrite the process for the SNIB? Moreover, can the SNIB continue this service past COVID-19 and create a source of investment revenue for the bank?

5. Understanding customer behaviour

It is not clear when some businesses can reopen. More personal services such as hairdressing, beauticians, tailoring, and dentists, and companies operating in the entertainment and events sector all have significant social distancing issues and have higher risk factors than a company offering, for example, electrical and plumbing services.

There is also a worry expressed in the free text answers in the survey, that customers and consumers are going to change their buying behaviours. 65% of GDP is driven by personal consumption and if people believe there is a greater risk to their financial security, they may change their spending priorities.

If customers decide to pay down credit cards and unsecured loans, put off buying cars and decide not to go on holiday twice a year, or business customers delay planned investment, pull back on marketing and new product development, then it is likely that the Bank of England's 14% fall in GDP predicted for 2020 will become a conservative estimate.

However, the answers to these vital questions are still unknown and therefore it is important that the Scottish Government support surveys consumer and business opinion regularly and shares that data with Scottish businesses.

6. The business need for Personal Protection Equipment

Business owners also worry that customers will spend less and will not go out as frequently due to the perceived additional health risk of shopping. This will impact the sales of discretionary goods the most. How to keep both employees and customers safe if they open up before a vaccine is in place is a key concern.

There have been significant shortages in personal protective equipment (PPE) in the care sector. If every customer is advised to wear a mask in public and every person working in a customer service role or working in a call centre requires a mask, hand sanitiser and possibly gloves, then there will simply not be enough PPE.

To be clear, Scotland cannot reopen for business and avoid a second wave of infections, potentially leading to a second lockdown, unless there are sufficient levels of the correct type of PPE. If Scotland were to come out of lockdown after other nations (due to different COVID-19 progression rates / R numbers), then the other nations will have locked down the supply of PPE that Scotland needs.

If businesses were to seek to purchase enough PPE to reopen it could cause catastrophic shortages for care homes, home care visitors, social workers and even the NHS. Without intervention, PPE will go to the highest bidder. This represents a significant market failure that needs to be addressed. In order to facilitate the recovery, the Scottish Government needs to intervene and stockpile PPE. This equipment can then

be sold to businesses and the private care sector to facilitate the safe reopening of the economy.

Both the invoice factoring and PPE stockpiling suggestions will require capital upfront. However, both solutions could be profitable for the Scottish Government in the medium term. With factoring the risk profile of the process could be managed by it only being made available to Limited Companies; this does not rule out factoring for non-limited companies, as sole traders and the self-employed can register companies within five days and the invoices can be reissued and factored. This would result in higher tax revenues from increased HMRC payments (rather than dividends) that would accrue directly to the Scottish Government.

We feel sure that if the Scottish Government were to implement the innovative and necessary policy suggestions outlined in these conclusions then Scottish businesses will be placed at a significant market advantage to those in other nations when it comes to restarting the economy.

Appendix

Survey Questions

- Q1. Has your business been adversely affected by the COVID-19 lockdown?
- Q2. We don't know when the lockdown will end, but please estimate what percentage change in revenues you would expect in the 12 months following March 1st, 2020 (for example, +10%, -10%, etc.).
- Q3. Has your business had to temporarily suspend trading as a result of the lockdown?
- Q4. Would your business survive without the 80% wage and continuity grant (£10,000 or £25,000) support from the government?
- Q5. Are you worried that your business will not survive the COVID-19 crisis even with the current Government support?
- Q6. In which sector does your business operate? (e.g. tourism, manufacturing, legal, food service etc.)
- Q7. Are your clients paying you for previously invoiced work?
- Q8. Have you been able to pay your suppliers on time?
- Q9. Have you had to make staff redundant? If you do not employ people go to question 13.
- Q10. Have you had to furlough staff?
- Q11. Will you be making a claim from the HMRC for 80% of the wages of furloughed staff?
- Q12. Will you be paying furloughed staff 80% or are you able to make the pay up to 100%?
- Q13. Have you applied for a business continuation grant (£10,000 or £25,000) from your local council?
- Q14. Have you received your grant?
- Q15. In which council area does your business operate? For example, Glasgow, Borders, East Renfrewshire, etc.
- Q16. Does your business miss out on any form of Government support related to COVID-19 for any reason? (such as being self-employed, being paid by dividend and not PAYE or are community benefit company, etc.).
- Q17. Following the lockdown do you anticipate difficulties, financial and otherwise, in restarting your business?

- Q18. Has your business applied for a Government backed business continuity loan from your bank?
- Q19. Will your business apply for a Government backed business continuity loan from your bank?
- Q20. Do you think Government backed business continuity loan from banks is a good or bad idea in general?
- Q21. What other issues regarding COVID-19 business support would you like us to raise with the Scottish Government or HMRC. For example, claims, processes and eligibility, etc.